The City of San Diego

Staff Report

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| DATE ISSUED: | March 7, 2023 |
| TO: | Public Facilities Financing Authority |
| FROM: | Office of the City Attorney, as General Counsel to the Public Facilities Financing Authority of the City of San Diego |
| **SUBJECT:** | **Approval of the Form and Authorization of the Distribution of the Preliminary Official Statement and Authorization of the Execution, Delivery and Distribution of the Official Statement in Connection with the Issuance and Sale by the Public Facilities Financing Authority of the City of San Diego of its 2023A Senior Water Revenue Bonds.** |

Primary Contact: David Powell Phone: (619) 355-5894

Council District(s): Citywide

OVERVIEW:
This resolution will authorize the form and distribution of the Preliminary Official Statement (POS); and the execution, delivery, and distribution of the Official Statement (OS) for the Public Facilities Financing Authority of the City of San Diego (the "PFFA") Senior Water Revenue Bonds, Series 2023A (Bonds) in an amount not to exceed $300,000,000 to finance the ongoing Water System capital program including paying the PFFA's outstanding Subordinated Water Revenue Water Commercial Paper Notes. The POS is a document that provides information about the City's Water System and the 2023A Water Revenue Bonds that potential investors would require for the bond sale.

PROPOSED ACTIONS:
Approve the form and authorize the distribution of the POS for the Bonds, and the execution, delivery, and distribution of the OS in connection with the Authority's issuance and sale of its Bonds.

DISCUSSION OF ITEM:
Please see Staff Report to City Council dated March 7, 2023, that is attached to the related City Council item.

Environmental Impact:
This action is not a project as defined by the California Environmental Quality Act (CEQA) Section 21065 and CEQA Guidelines Sections 15378(b)(4), where a project does not include the creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment, and 15378(b)(5), where a project does not include organizational or administrative activities of governments

that will not result in direct or indirect physical changes in the environment. Therefore, this activity is not subject to CEQA pursuant to CEQA Guidelines Section 15060(c)(3).

Previous San Diego City Council and/or Committee Actions:
On October 11, 2022, City Council approved the first reading of Ordinance No. O-21561, and on November 1, 2022, City Council adopted the Ordinance, thereby authorizing the issuance of the 2023A Water Revenue Bonds and certain other related actions. On October 11, 2022, the PFFA also authorized the issuance of the 2023A Water Revenue Bonds (FA-2022-4).

David Powell
Deputy General Counsel

PUBLIC FACILITIES FINANCING AUTHORITY
OF THE CITY OF SAN DIEGO

RESOLUTION NUMBER FA-2023-2

ADOPTED ON MARCH 21, 2023

A RESOLUTION OF THE COMMISSION OF THE PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO (I) APPROVING THE FORM AND AUTHORIZING THE EXECUTION AND DELIVERY OF A PRELIMINARY OFFICIAL STATEMENT AND OFFICIAL STATEMENT AND (II) APPROVING CERTAIN OTHER AGREEMENTS AND ACTIONS IN CONNECTION WITH THE ISSUANCE AND SALE OF ITS WATER REVENUE BONDS.

WHEREAS, Article 1 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California authorizes and empowers local agencies to form a joint powers authority, separate and apart from the contracting parties, and Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (known as the Marks-Roos Local Bond Pooling Act of 1985) authorizes and empowers such an authority to issue bonds for the purpose of financing public capital improvements, working capital, liability and other insurance needs, or projects whenever there are significant public benefits to local agencies; and

WHEREAS, The City of San Diego, California (the “City”), the City solely in its capacity as the designated Successor Agency to the former Redevelopment Agency of the City of San Diego, and the Housing Authority of the City of San Diego, are parties to a Joint Exercise of Powers Agreement establishing the Public Facilities Financing Authority of the City of San Diego (the “Authority”), a California joint exercise of powers authority duly organized and established to finance, acquire, construct, maintain, repair and control certain capital facilities improvements for the City; and

WHEREAS, to effectuate the design, acquisition, construction and installation of improvements ("Projects") to the City's water system, the Authority has issued various series of water revenue bonds and commercial paper notes, each with an appropriate series, lien, and purpose designation including but not limited to the Subordinated Water Revenue Commercial Paper Notes, Series A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the "Commercial Paper Notes"); and

WHEREAS, the Authority issued the Commercial Paper Notes to initially finance various Projects with the expectation that the Commercial Paper Notes would be paid, in whole or in part, with the proceeds of water revenue bonds (the water revenue bonds issued to pay such Commercial Paper Notes and/or finance Projects, the "Authorized Water Revenue Bonds"); and

WHEREAS, the City desires to finance the acquisition, construction, installation, and improvement of additional components to the Water System; and

WHEREAS, the City desires to provide of the issuance of water revenue bonds to finance the additional Components of the Water System and pay, in whole or in part, the Commercial Paper Notes (such water revenue bonds being referred to herein as Authorized Water Revenue Bonds); and

WHEREAS, the Council of the City of San Diego (the "City Council") has heretofore authorized and approved by Ordinance Number O-21561 (the "Ordinance") on November 14, 2022, and the Authority has authorized and approved by Resolution No. FA-2022-4 (the "Authority Resolution") adopted by the Authority on October 11, 2022, the agreements and conditions attendant to the issuance by the Authority of one or more series of Authorized Water Revenue Bonds payable from Installment Payments secured by Net System Revenues of the Water Utility Fund of the City (as those terms are defined in the Ordinance) in an aggregate principal amount not to exceed $300,000,000 to pay, in whole or in part, the Commercial Paper Notes, to provide the necessary capacity to initially finance various other Projects and/or to initially finance various other Projects; and

WHEREAS, in connection with the marketing and sale of the Authorized Water Revenue Bonds, as the case may be, it is necessary for the Authority to authorize and approve the distribution of the Preliminary Official Statement (the "Preliminary Official Statement") and the execution, delivery, and distribution of the final Official Statement (the "Official Statement") relating to the Authorized Water Revenue Bonds, as the case may be, all in accordance with the policies of this Commission of the Public Facilities Financing Authority of the City of San Diego (the "Commission") and applicable securities laws and regulations; and

WHEREAS, there has been presented to this meeting a proposed form of Preliminary Official Statement related to the issuance of the Authorized Water Revenue Bonds, a copy of which Preliminary Official Statement is on file in the Office of the Secretary; and

WHEREAS, the form of the Preliminary Official Statement submitted to this meeting has been reviewed and approved by the Disclosure Practices Working Group ("DPWG"); and

WHEREAS, the Authority is authorized to undertake the actions described in this Resolution pursuant to its Joint Exercise of Powers Agreement and the Constitution and applicable laws of the State of California;

NOW, THEREFORE, BE IT RESOLVED by the Commission, as follows:

Section 1. The Commission hereby finds and determines that the statements set forth above in the recitals to this Resolution are true and correct.

Section 2. The form and content of the form of the Preliminary Official Statement submitted to this meeting, a copy of which is on file in the Office of the Secretary, and the execution and delivery thereof by the Authority are hereby approved. Each of the Chair, Vice-Chair or Treasurer of the Authority (each, an "Authorized Officer") is hereby authorized, and any one of the Authorized Officers is hereby directed, for and in the name and on behalf of the Authority, to execute and deliver any requested certificate or instrument evidencing the Authority's approval of the Preliminary Official Statement in conjunction with the issuance of the Authorized Water Revenue Bonds, in substantially the form presented to this meeting and the Secretary is authorized to attest thereto, with such additions, changes, supplements and amendments therein as any Authorized Officer shall determine are necessary or desirable and approve as being in the best interests of the Authority, and as approved as to form by the San Diego City Attorney as General Counsel to the Authority or her specified designee ("General Counsel"), and DPWG, and with such other changes as may be required or requested by Hawkins Delafield & Wood LLP, as Bond and Disclosure Counsel ("Bond and Disclosure Counsel"), such approval to be conclusively evidenced by the execution and delivery thereof by the Authorized Officer. Upon approval of the Preliminary Official Statement for use in marketing the Authorized Water Revenue Bonds, as the case may be, by the Authorized Officers and in accordance with applicable policies and procedures of the Authority, including approval by DPWG, the Preliminary Official Statement shall be "deemed final" as of its date, except for the omission of certain information as permitted in and pursuant to Rule 15c2-12 (the "Rule"), promulgated by the Securities and Exchange Commission pursuant to the provisions of the Securities Act of 1934, as amended, and the Authorized Officers are hereby authorized, and any one of the Authorized Officers is hereby directed, for and in the name and on behalf of the Authority, to execute a certificate to that effect.

Section 3. Following the pricing and sale of the Authorized Water Revenue Bonds, the Authorized Officers are authorized and directed to cause a form of the Official Statement to be prepared in accordance with the disclosure policies of the Authority, the requirements of the Rule and with the assistance of DPWG together with such changes as are determined to be necessary or desirable by the Authorized Officer executing the Official Statement to make such Official Statement complete and accurate as of its date, such approval to be conclusively evidenced by the execution and delivery of the Official Statement to the initial purchasers of the Authorized Water Revenue Bonds, as the case may be. The Official Statement shall be executed by any of the Authorized Officers upon satisfaction of applicable DPWG requirements and the recommendation of Bond and Disclosure Counsel.

Section 4. All actions heretofore taken by any officers, employees, or agents of the Authority with respect to the issuance, delivery, or sale of the Authorized Water Revenue Bonds, as the case may be, are hereby approved, confirmed and ratified; and any officers, employees, or agents of the Authority as may be authorized by the Authorized Officers are hereby authorized and directed, for and in the name of and on behalf of the Authority, to do any and all things and take any and all actions, including, without limitation, pay necessary and appropriate fees and expenses, and execute and deliver any and all certificates, agreements and other documents which they, or any of them, may deem necessary or desirable to consummate the transactions authorized by the Ordinance, City Resolution and the Authority Resolution in accordance with this Resolution.

Section 5. This Resolution shall take effect immediately upon its adoption.

ADOPTED, SIGNED AND APPROVED this 21st day of March, 2023, by the following vote:

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| AYES: | ____________________ |
| NAYS: | ____________________ |
| ABSENT: | ____________________ |
| VACANT: | ____________________ |
| ABSTAIN: | ____________________ |

PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO

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Sean Elo-Rivera, Council President
Chair, Commission

Attest:

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Secretary to Commission

**NEW ISSUES – BOOK-ENTRY ONLY**

**RATINGS: Fitch – "__"**
**Moody's – "__"**
**See "RATINGS."**

*In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2023A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the 2023A Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code, however for tax years beginning after December 31, 2022, interest on the 2023A Bonds is included in the "adjusted financial statement income" of certain corporations that are subject to the alternative minimum tax under Section 55 of the Code. In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the 2023A Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS."*

# $[Principal Amount]*
# PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
# SENIOR WATER REVENUE BONDS, SERIES 2023A
## (Payable Solely From Installment Payments Secured by Net System Revenues of the Water Utility Fund)

**Dated: Date of Delivery** **Due: August 1, as shown on the inside cover page**

The $[Principal Amount]* Public Facilities Financing Authority of The City of San Diego Senior Water Revenue Bonds, Series 2023A (Payable Solely From Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the "2023A Bonds") are being issued by the Public Facilities Financing Authority of The City of San Diego (the "Authority") pursuant to the Government Code of the State of California (the "Government Code") and the Indenture, dated as of January 1, 2009, as amended and supplemented, including as supplemented by the Eighth Supplemental Indenture, dated as of April 1, 2023 (collectively, the "Indenture"), each by and between the Authority and U.S. Bank Trust Company, National Association, as successor in interest to U.S. Bank National Association and as successor trustee (the "Trustee"). The proceeds of the 2023A Bonds will be used to (a) finance capital improvements to the Water System (the "Water System") of The City of San Diego (the "City"), (b) pay all the Outstanding principal of the Subordinated Water Revenue Commercial Paper Notes, Series A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the Water Utility Fund) of the Authority, which were issued to initially finance a portion of the capital improvements to the Water System, and (c) pay the costs of issuance incurred in connection with the issuance of the 2023A Bonds. See "PLAN OF FINANCE."

Capitalized terms used on this cover page and not otherwise defined have the meanings ascribed to them elsewhere in this Official Statement. See in particular "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture" and "– Amended and Restated Master Installment Purchase Agreement."

The 2023A Bonds are limited obligations of the Authority secured by Revenues consisting primarily of 2023 Installment Payments to be made by the City to the San Diego Facilities and Equipment Leasing Corporation (the "Corporation") under the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the "Original Master Installment Purchase Agreement"), as amended and supplemented, including as supplemented by the 2023 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of April 1, 2023 (the "2023 Supplement" and, together with the Original Master Installment Purchase Agreement as previously amended and supplemented, the "Master Installment Purchase Agreement"), each by and between the City and the Corporation, and other assets pledged therefor under the Indenture. The 2023 Installment Payments will be assigned by the Corporation to the Authority pursuant to the Assignment Agreement. The pledge and right of payment from Net System Revenues securing the 2023 Installment Payments will be Senior Obligations under the Master Installment Purchase Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2023A BONDS."

**The 2023A Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged therefor and amounts on deposit in the Bonds Payment Fund established under the Indenture. The obligation of the City to make 2023 Installment Payments under the 2023 Supplement does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the full faith and credit of the Authority, the City, the County of San Diego (the "County"), the State of California (the "State"), or any political subdivision of the State nor the taxing power of the City, the County, the State, or any political subdivision of the State is pledged to the payment of the principal of or interest on the 2023A Bonds. The Authority has no taxing power. Neither the 2023A Bonds nor the obligation of the City to make 2023 Installment Payments constitutes an indebtedness of the Authority, the City, the County, the State, or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation or restriction.**

The 2023A Bonds will bear interest at the respective rates set forth on the inside cover page hereof. Interest on the 2023A Bonds will accrue from the date of delivery of the 2023A Bonds and is payable on February 1 and August 1 of each year, commencing on August 1, 2023. See "DESCRIPTION OF THE 2023A BONDS – General."

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* Preliminary, subject to change.

**The 2023A Bonds are subject to redemption as described herein. See "DESCRIPTION OF THE 2023A BONDS – Redemption of 2023A Bonds."**

The 2023A Bonds will be issued only in fully-registered form in denominations of $5,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2023A Bonds. Ownership interests in the 2023A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the 2023A Bonds, the principal, the redemption premium, if any, and interest on the 2023A Bonds will be made as described in "APPENDIX D – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM."

**This cover page contains information for general reference only. Potential purchasers are advised to read the entire Official Statement to obtain information essential to making an informed investment decision.**

The 2023A Bonds are offered when, as, and if delivered to and received by the Underwriters, subject to the approval of legality by Mara W. Elliott, City Attorney of the City, and by Hawkins Delafield & Wood LLP, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Authority by Hawkins Delafield & Wood LLP, for the Authority and the City by Mara W. Elliott, City Attorney, and for the Underwriters by their counsel, Nixon Peabody LLP. In connection with the issuance of the 2023A Bonds, Hawkins Delafield & Wood LLP is serving as Disclosure Counsel to the Authority.

Public Resources Advisory Group, is serving as Municipal Advisor to the Authority with respect to the 2023A Bonds. It is anticipated that the 2023A Bonds will be available for delivery through the facilities of DTC in New York, New York on or about April __, 2023.

**Morgan Stanley**

**Blaylock Van, LLC** **Rice Financial Products Company** **UBS**

Dated: March__, 2023.

## MATURITY SCHEDULE

## $[PRINCIPAL AMOUNT]*
## PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO
## SENIOR WATER REVENUE BONDS, SERIES 2023A

Base CUSIP† No. 79730C

| Maturity Date (August 1) | Principal Amount | Interest Rate | Yield | CUSIP† (Suffix) | Maturity Date (August 1) | Principal Amount | Interest Rate | Yield | CUSIP† (Suffix) |
|---|---|---|---|---|---|---|---|---|---|
| 2024 | | | | | 2034 | | | | |
| 2025 | | | | | 2035 | | | | |
| 2026 | | | | | 2036 | | | | |
| 2027 | | | | | 2037 | | | | |
| 2028 | | | | | 2038 | | | | |
| 2029 | | | | | 2039 | | | | |
| 2030 | | | | | 2040 | | | | |
| 2031 | | | | | 2041 | | | | |
| 2032 | | | | | 2042 | | | | |
| 2033 | | | | | 2043 | | | | |

$_________ – ___% Series 2023A Term Bonds due August 1, 2048, Priced to Yield: ___% CUSIP† No. 79730C___

$_________ – ___% Series 2023A Term Bonds due August 1, 2052, Priced to Yield: ___% CUSIP† No. 79730C___

* Preliminary, subject to change.

† CUSIP is a registered trademark of American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright© 2023 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. The City, the Authority, the Corporation, and the Underwriters and their agents and counsel do not assume responsibility for the accuracy of such numbers.

No dealer, broker, salesperson or other person has been authorized by the City, the Authority, or the Corporation to give any information or to make any representations other than those contained herein, and if given or made, such other information or representation must not be relied upon as having been authorized by the City, the Authority, or the Corporation. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the 2023A Bonds by a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the 2023A Bonds. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement.

The information set forth herein has been furnished by the City or otherwise derived from other sources that are believed to be reliable including, without limitation, the San Diego County Water Authority and The Metropolitan Water District of Southern California. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as a part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information in APPENDIX D – "INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM" attached hereto has been furnished by The Depository Trust Company, and no representation has been made by the Authority, the City, the Corporation or the Underwriters as to the accuracy or completeness of such information.

The information set forth herein other than that provided by the City, the Corporation or the Authority, although obtained from sources which are believed by the City to be reliable, is not guaranteed by the City, the Corporation or the Authority as to accuracy or completeness. The information and expressions of opinions herein are subject to change without notice, and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date thereof. This Official Statement is submitted with respect to the sale of the 2023A Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the City. All summaries of documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such documents and laws.

A wide variety of other information, including financial information concerning the City, is available from publications and websites of the City and others. Any such information that is inconsistent with the information set forth in this Official Statement should be disregarded. No such information is a part of or incorporated into this Official Statement, except as expressly noted.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF

THE 2023A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE 2023A BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AT PRICES LOWER THAN THE PUBLIC OFFERING PRICE STATED ON THE INSIDE COVER PAGE HEREOF, AND SAID PUBLIC OFFERING PRICE MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITERS.

THE 2023A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXCEPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SECTION 3(A)(2) OF SUCH ACT. THE 2023A BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THE INDENTURE HAS NOT BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT.

**CITY OF SAN DIEGO**

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***Mayor***
Todd Gloria

***City Council***
(Also serves as the Board of Commissioners of the
Public Facilities Financing Authority of the City of San Diego)

Joe LaCava (*District 1*)
Jennifer Campbell, (*District 2*)
Stephen Whitburn, (*District 3*)
Monica Montgomery Steppe (*District 4*)
*City Council President Pro Tem*
Marni Von Wilpert (*District 5*)

Kent Lee (*District 6*)
Raul Campillo (*District 7*)
Vivian Moreno (*District 8*)
Sean Elo-Rivera (*District 9*)
*City Council President*

***City Attorney***
Mara W. Elliott

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***City Officials***
Eric K. Dargan, *Chief Operating Officer*
Matthew Vespi, *Chief Financial Officer*
Elizabeth Correia, *City Treasurer*
Andy Hanau, *City Auditor*
Rolando Charvel, *Department of Finance Director and City Comptroller*
Charles Modica, *Independent Budget Analyst, Office of the Independent Budget Analyst*
Diana Fuentes, *Interim City Clerk*
Juan Guerreiro, *Director of Public Utilities*

**SPECIAL SERVICES**

***Bond Counsel and Disclosure Counsel***
Hawkins Delafield & Wood LLP
Los Angeles, California

***Municipal Advisor***
Public Resources Advisory Group
Los Angeles, California

***Trustee***
U.S. Bank Trust Company, National Association
Los Angeles, California

## SUMMARY OF THE OFFERING

***This summary is subject in all respects to more complete information contained in this Official Statement and should not be considered a complete statement of the facts material to making an investment decision. The offering of the 2023A Bonds to potential investors is made only by means of the entire Official Statement, including the cover page, the inside cover page, and the Appendices, and other documents available for review and to which reference is herein made. Capitalized terms used in this summary and not otherwise defined have the meanings given to such terms in this Official Statement.***

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| **Issuer:** | The Public Facilities Financing Authority of the City of San Diego (the "Authority"). |
| **Bonds Offered:** | $[Principal Amount]* aggregate principal amount of the Authority's Senior Water Revenue Bonds, Series 2023A (the "2023A Bonds"). |
| **Interest Payment Dates:** | Interest on the 2023A Bonds will be payable semiannually on each February 1 and August 1, commencing on August 1, 2023. |
| **Security and Sources of Payment:** | The 2023A Bonds are limited obligations of the Authority secured by Revenues consisting primarily of 2023 Installment Payments to be made by The City of San Diego (the "City") to the San Diego Facilities and Equipment Leasing Corporation (the "Corporation") under the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the "Original Master Installment Purchase Agreement"), as amended and supplemented, including as supplemented by the 2023 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of April 1, 2023 (the "2023 Supplement" and, together with the Original Master Installment Purchase Agreement as previously amended and supplemented, the "Master Installment Purchase Agreement"), each by and between the City and the Corporation, and other assets pledged therefor under the Indenture, dated as of January 1, 2009, as amended and supplemented, including as supplemented by the Eighth Supplemental Indenture, dated as of April 1, 2023 (collectively, the "Indenture"), each by and between the Authority and U.S. Bank Trust Company, National Association, as successor in interest to U.S. Bank National Association and as successor trustee (the "Trustee"). The 2023 Installment Payments will be in amounts that are sufficient to pay the principal of and interest on the 2023A Bonds and will be assigned by the Corporation to the |

* Preliminary, subject to change.

Authority pursuant to the Assignment Agreement. The pledge and right of payment from Net System Revenues securing the 2023 Installment Payments will be Parity (Senior) Obligations[1] under the Master Installment Purchase Agreement.

The 2023A Bonds are payable solely from and secured solely by the Revenues pledged therefor and amounts on deposit in the Bonds Payment Fund established under the Indenture. The obligation of the City to make 2023 Installment Payments under the 2023 Supplement does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the full faith and credit of the Authority, the City, the County of San Diego (the "County"), the State of California (the "State"), or any political subdivision of the State nor the taxing power of the City, the County, the State, or any political subdivision of the State is pledged to the payment of the principal of or interest on the 2023A Bonds. The Authority has no taxing power. Neither the 2023A Bonds nor the obligation of the City to make 2023 Installment Payments constitutes an indebtedness of the Authority, the City, the County, the State, or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation or restriction.

**Rate Covenants:** The City has covenanted in the Master Installment Purchase Agreement to fix, prescribe, and collect rates and charges for the City's water service, which will be at least sufficient to yield the greater of (i) Net System Revenues sufficient to pay during each Fiscal Year all Obligations (including the 2023 Installment Payments) payable in each Fiscal Year, or (ii) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service (which includes debt service on all Senior Obligations, including debt service on the 2023A Bonds, and excludes debt service on Subordinated Obligations) for such Fiscal Year. The City has also covenanted with respect to certain State Revolving Fund Loans and certain loan agreements under the Water Infrastructure Finance and Innovation Act to maintain and may in the future covenant to maintain rates and revenues at levels different than those agreed under the Master Installment Purchase

[1] The Master Installment Purchase Agreement uses the term "Parity" in connection with obligations whose right of payment is not subordinated to the right of payment of any other obligations. For purposes of the forepart of this Official Statement, the term "Senior" will be used in place of "Parity" to clarify that the related obligations have a first priority lien on Net System Revenues and that such lien is senior to the lien of Subordinated Obligations on the Net System Revenues.

Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2023A BONDS – Rate Covenants."

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| **No Debt Service Reserve Fund:** | No debt service reserve fund will be created or funded to secure the 2023A Bonds. |
| **Additional Obligations:** | The City expects to incur additional Obligations, payments with respect to which will be on parity with or subordinated to, the City's obligation to make the 2023 Installment Payments, subject to satisfaction of the conditions specified in the Master Installment Purchase Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2023A BONDS – Issuance of Additional Bonds Under the Indenture." |
| **Use of Proceeds:** | The proceeds of the 2023A Bonds will be applied to (i) finance capital improvements to the Water System, (ii) pay all the Outstanding principal of commercial paper notes of the Authority, which were used initially to finance a portion of the capital improvements to the Water System, and (iii) pay the costs of issuance incurred in connection with the issuance of the 2023A Bonds. |
| **Redemption*:** | The 2023A Bonds are subject to optional and mandatory sinking fund redemption prior to maturity as described herein. See "DESCRIPTION OF THE 2023A BONDS – Redemption of 2023A Bonds" herein. |
| **Authorized Denominations:** | The 2023A Bonds will be issued as registered bonds in denominations of $5,000 and integral multiples thereof. |
| **Form and Depository:** | The 2023A Bonds will be delivered solely in registered form under a global book-entry system through the facilities of DTC. |
| **Tax Status:** | In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2023A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) interest on the 2023A Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code, however for tax years beginning after December 31, 2022, interest on the 2023A Bonds is included in the "adjusted financial statement income" of certain corporations that are subject to the alternative minimum |

* Preliminary, subject to change.

| | |
|---|---|
| | tax under Section 55 of the Code. In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the 2023A Bonds is exempt from personal income taxes imposed by the State of California. See “TAX MATTERS.” |
| **Continuing Disclosure:** | The City will execute a Continuing Disclosure Certificate to assist the Underwriters in complying with the provisions of Rule 15c2-12, as further described in “CONTINUING DISCLOSURE” herein. The form of Continuing Disclosure Certificate that the City will execute is attached as APPENDIX C hereto. |
| **Risk Factors:** | The purchase and ownership of the 2023A Bonds involves investment risks. Prospective purchasers of the 2023A Bonds should read this Official Statement in its entirety. For a discussion of certain risks relating to the 2023A Bonds, see “RISK FACTORS.” |
| **Ratings:** | Fitch: “__”<br>Moody’s: “__” See “RATINGS” herein. |

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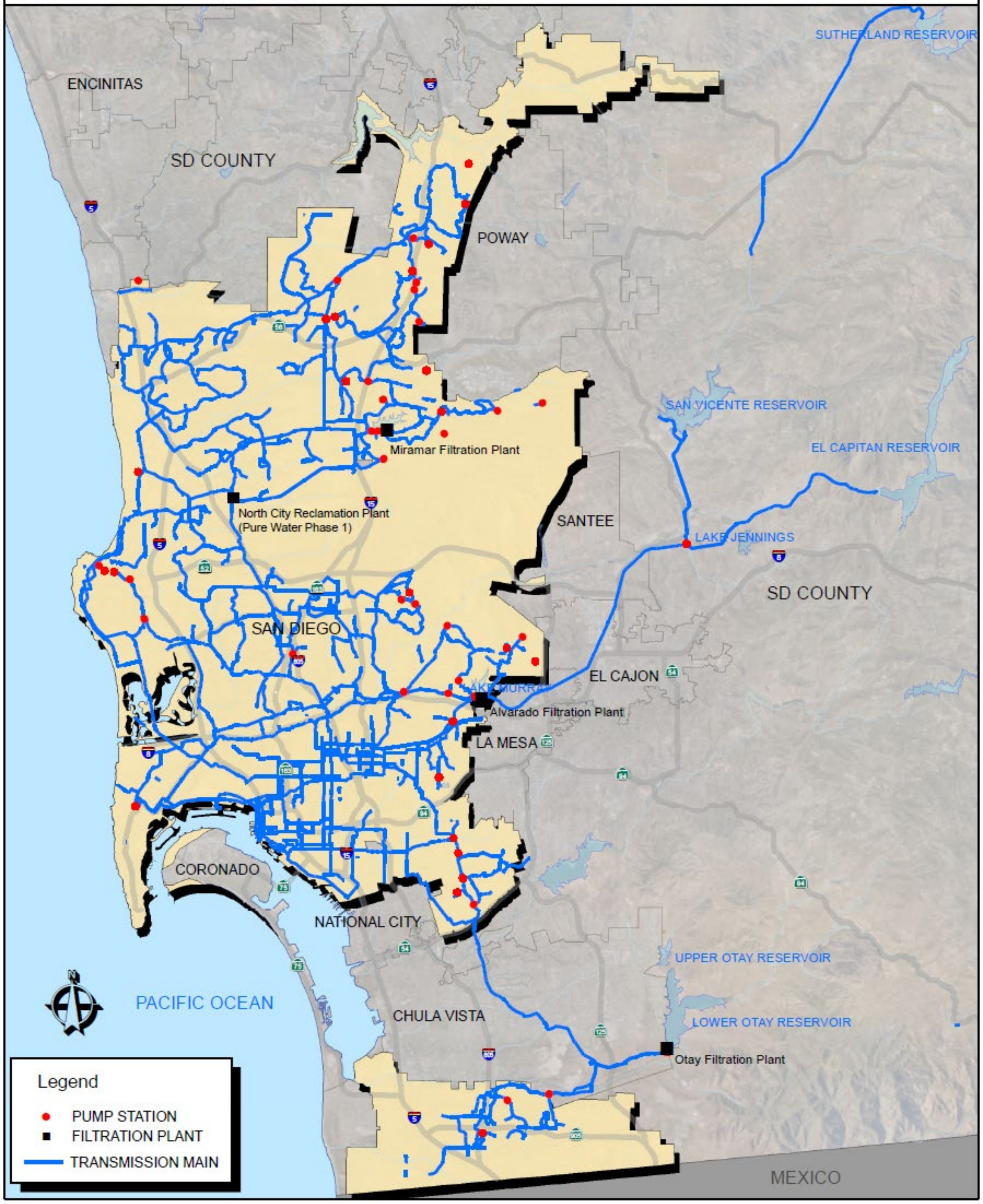
# City of San Diego Water System

## Existing Facilities



**OFFICIAL STATEMENT**
**$[Principal Amount]***
**PUBLIC FACILITIES FINANCING AUTHORITY OF**
**THE CITY OF SAN DIEGO**
**SENIOR WATER REVENUE BONDS, SERIES 2023A**
**(Payable Solely From Installment Payments**
**Secured by Net System Revenues of the Water Utility Fund)**

## INTRODUCTION

*This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page, the inside cover page and appendices hereto and the documents described herein. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to and summaries of the laws of the State of California and any documents, reports, and other instruments referred to herein do not purport to be complete and such references are qualified in their entirety by reference to each such law, document, report or instrument. All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings set forth in the Indenture or the Master Installment Purchase Agreement, each as defined herein. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture" and "– Amended and Restated Master Installment Purchase Agreement."*

### General

The $[Principal Amount]* Public Facilities Financing Authority of The City of San Diego Senior Water Revenue Bonds, Series 2023A (Payable Solely From Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the "2023A Bonds") are being issued by the Public Facilities Financing Authority of the City of San Diego (the "Authority") pursuant to the Government Code of the State of California (the "Government Code") and the Indenture, dated as of January 1, 2009 (the "Original Indenture"), as amended and supplemented by the First Supplemental Indenture, dated as of June 1, 2009, the Second Supplemental Indenture, dated as of June 1, 2010, the Third Supplemental Indenture, dated as of April 1, 2012, the Fourth Supplemental Indenture, dated as of June 1, 2016, the Fifth Supplemental Indenture, dated as of January 1, 2017, the Sixth Supplemental Indenture, dated as of December 1, 2018, the Seventh Supplemental Indenture, dated as of May 1, 2020, and the Eighth Supplemental Indenture, dated as of April 1, 2023 (the "Eighth Supplemental Indenture"), each by and between the Authority and U.S. Bank Trust Company, National Association, as successor in interest to U.S. Bank National Association and as successor trustee (the "Trustee"). The Original Indenture as heretofore amended and supplemented, including by the Eighth Supplemental Indenture, is referred to herein as the "Indenture."

The proceeds of the 2023A Bonds will be used to (a) finance capital improvements to the Water System (the "Water System") of The City of San Diego (the "City"), (b) pay all the Outstanding principal of the Subordinated Water Revenue Commercial Paper Notes, Series A (Payable Solely from Subordinated Installment Payments Secured by Net System Revenues of the

* Preliminary, subject to change.

Water Utility Fund) (the "Commercial Paper Notes"), which were issued to initially finance a portion of the capital improvements to the Water System, and (c) pay the costs of issuance incurred in connection with the issuance of the 2023A Bonds. See "PLAN OF FINANCE."

**The 2023A Bonds**

The 2023A Bonds will bear interest at the respective rates set forth on the inside cover page hereof. Interest on the 2023A Bonds will accrue from the date of delivery of the 2023A Bonds and is payable on February 1 and August 1 of each year, commencing on August 1, 2023.

The 2023A Bonds are being issued only in fully-registered form in denominations of $5,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2023A Bonds. Ownership interests in the 2023A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the 2023A Bonds, the principal, the redemption premium, if any, and interest on the 2023A Bonds will be made as described in "APPENDIX D – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM."

**Security and Sources of Payment for the 2023A Bonds**

The 2023A Bonds are Senior Bonds under the Indenture that are secured by a pledge of Revenues. "Revenues" consist of Installment Payments that are Senior* Obligations received by or due to the San Diego Facilities and Equipment Leasing Corporation (the "Corporation") pursuant to the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the "Original Master Installment Purchase Agreement"), by and between the City and the Corporation, as amended and supplemented, including as amended by the First Amendment to Amended and Restated Master Installment Purchase Agreement, dated as of November 14, 2018, each by and between the City and the Corporation, as supplemented by the Collateral Agency, Account and Assignment Agreement, dated as of November 14, 2018 (the "Collateral Agency Agreement"), by and among the City, the Corporation, the Authority, the United States Environmental Protection Agency (the "EPA"), acting by and through the Administrator of the Environmental Protection Agency (the "WIFIA Lender"), and U.S. Bank Trust Company, National Association, as successor in interest to U.S. Bank National Association and as successor collateral agent (the "Collateral Agent") under the Collateral Agency Agreement and as Trustee under the Indenture, and as supplemented by the 2023 Supplement to the Amended and Restated Master Installment Purchase Agreement, dated as of April 1, 2023 (the "2023 Supplement" and, together with the Original Master Installment Purchase Agreement, as previously amended and supplemented, the "Master Installment Purchase Agreement"), by and between the City and the Corporation.

The 2023A Bonds are limited obligations of the Authority secured by Revenues and other assets pledged therefor under the Indenture. The Revenues will consist primarily of 2023 Installment Payments (as defined herein) to be made by the City to the Corporation under the 2023 Supplement. The 2023 Installment Payments will be assigned by the Corporation to the Authority pursuant to the Assignment Agreement, dated as of April 1, 2023 (the "Assignment Agreement"),

* The Master Installment Purchase Agreement uses the term "Parity" in connection with obligations whose right of payment is not subordinated to the right of payment of any other obligations. For purposes of the forepart of this Official Statement, the term "Senior" will be used in place of "Parity" to clarify that the related obligations have a first priority lien on Net System Revenues and that such lien is senior to the lien of Subordinated Obligations on the Net System Revenues.

by and between the Corporation and the Authority, which provides for the granting, sale, assignment and transfer by the Corporation to the Authority, for the benefit of the Owners of the 2023A Bonds, all of the Corporation's right, title, and interest in and to the 2023 Supplement. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2023A BONDS."

The Master Installment Purchase Agreement provides for the payment by the City of Senior Obligations and Subordinated Obligations in amounts sufficient to make payments of the principal of and interest on Bonds of the Authority. The 2023 Supplement provides for the payment by the City of Installment Payments (the "2023 Installment Payments"), which are Senior Obligations under the Master Installment Purchase Agreement, in amounts sufficient to make payments of the principal of and interest on the 2023A Bonds. The 2023 Installment Payments securing payment of the 2023A Bonds are payable from Net System Revenues on a basis that is on parity with the right of payment by the City of its Senior Obligations, which may be incurred from time to time under the Master Installment Purchase Agreement, and is senior to the right of payment by the City of its Subordinated Obligations under the Master Installment Purchase Agreement. See "Outstanding Senior Obligations and Subordinated Obligations" below.

Pursuant to the Collateral Agency Agreement, Net System Revenues are deposited into accounts established thereunder for the purposes set forth therein, including, the payment of amounts due under Senior Obligations and/or Subordinated Obligations, as the context requires (collectively, the "Secured Obligations"), and the Collateral Agent is appointed agent to enforce the rights of holders of or lenders under the Secured Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2023A BONDS" and "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Collateral Agency, Account and Assignment Agreement."

**The 2023A Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged therefor and amounts on deposit in the Bonds Payment Fund established under the Indenture. The obligation of the City to make 2023 Installment Payments under the 2023 Supplement does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. Neither the full faith and credit of the Authority, the City, the County of San Diego (the "County"), the State of California (the "State"), or any political subdivision of the State nor the taxing power of the City, the County, the State, or any political subdivision of the State is pledged to the payment of the principal of or interest on the 2023A Bonds. The Authority has no taxing power. Neither the 2023A Bonds nor the obligation of the City to make 2023 Installment Payments constitutes an indebtedness of the Authority, the City, the County, the State, or any political subdivision of the State within the meaning of any constitutional or statutory debt limitation or restriction.**

### Rate Covenants

The City has covenanted in the Master Installment Purchase Agreement to fix, prescribe, and collect rates and charges for the City's water service (as described below, the "Water Service"), which will be at least sufficient to yield the greater of (i) Net System Revenues sufficient to pay during each "Fiscal Year" (being the period that begins on July 1 of each year and ends on June 30 of the following year) all Obligations (including the 2023 Installment Payments) payable in such Fiscal Year, or (ii) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service (which includes debt service on all Senior Obligations, including debt service on the 2023A Bonds, and excludes debt service on Subordinated Obligations) for such Fiscal Year. The Water Service rendered by the City includes the collection, conservation, production, storage, treatment, transmission, furnishing, and distribution services made available or provided by the Water System.

The City has also agreed to rate covenants in connection with its SRF Loans, which are Senior Obligations, and WIFIA Loans, which are Subordinated Obligations, subject to the conditions set forth in the WIFIA Loans (each of SRF Loans and WIFIA Loans are hereinafter defined). The covenants made in connection with the SRF Loans, the WIFIA Loans and any additional loans are not made for the benefit of the Owners of the 2023A Bonds and Owners of the 2023A Bonds do not have a right to enforce such covenants. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2023A BONDS – Rate Covenant." For information on the possible limitation on the City's ability to comply with the rate covenant as a consequence of Proposition 218 (as defined herein), see "RISK FACTORS – Rate-Setting Process Under Proposition 218" and "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIIC" and "– Article XIIID."

**Redemption of the 2023A Bonds**

The 2023A Bonds are subject to redemption prior to maturity as described herein. See "DESCRIPTION OF THE 2023A BONDS – Redemption of 2023A Bonds."

**No Debt Service Reserve Fund for the 2023A Bonds**

No debt service reserve fund will be created or funded to secure the 2023A Bonds. Debt service reserve funds were created in connection with the issuance of certain of the Authority's Bonds and the incurrence of certain of the City's Obligations. Amounts on deposit in, or to be on deposit in, such debt service reserve funds are not available to secure the 2023A Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2023A BONDS – No Debt Service Reserve Fund for the 2023A Bonds."

**Outstanding Senior Obligations and Subordinated Obligations**

The 2023 Installment Payments securing payment of the 2023A Bonds are payable from Net System Revenues on a basis that is on parity with the right of payment by the City of Senior Obligations incurred and to be incurred under the Master Installment Purchase Agreement. Senior Obligations consist of Senior Bonds and existing Drinking Water State Revolving Fund Loans (the "SRF Loans") which are provided by the State Water Resources Control Board. As of March 1, 2023, there was $366,107,692 aggregate principal amount of Outstanding Senior Obligations that are payable from Net System Revenues, consisting of $297,700,000 principal amount of the Senior Water Revenue Bonds, Series 2020A (the "2020A Senior Bonds") and the Senior Water Revenue Refunding Bonds, Series 2020B (the "2020B Senior Bonds" and, together with the 2020A Senior Bonds, the "2020 Bonds") and $68,407,692 principal amount of SRF Loans.

As of March 1, 2023, there was $983,608,742 aggregate principal amount of Outstanding Subordinated Obligations that are payable from Net System Revenues, consisting of $225,930,000 aggregate principal amount of Commercial Paper Notes (all of which will be repaid with proceeds of the 2023A Bonds), $612,460,000 aggregate principal amount of Subordinated Bonds and $145,218,742 drawn under the EPA's initial loan to the City (the "2020 WIFIA Loan") pursuant to the Water Infrastructure Finance and Innovation Act ("WIFIA") and the 2020 WIFIA Loan Agreement (the "2020 WIFIA Loan Agreement"). See TABLE 20 "OUTSTANDING DEBT."

Under the Indenture, the aggregate principal amount of Commercial Paper Notes Outstanding at any time may not exceed $250,000,000. Pursuant to the 2020 WIFIA Loan, the EPA agreed to assist in the financing of up to $614,000,000 of certain improvements to the Water System in connection with the herein described Pure Water Program Phase 1. The City also entered into a separate loan with the EPA (the "2021 WIFIA Loan" and, together with the 2020 WIFIA Loan, the "WIFIA Loans") under the terms of the 2021 WIFIA Loan Agreement (the "2021 WIFIA Loan Agreement" and, together with the 2020 WIFIA Loan Agreement, the "WIFIA Loan Agreements"), pursuant to which the EPA agreed to provide up to $119,500,000 of additional funding for the Pure Water Program Phase 1. The Outstanding Subordinated Obligations principal amount does not include the $588,281,258 that remains to be drawn under the WIFIA Loans as of March 1, 2023. See "PLAN OF FINANCE," "SECURITY AND SOURCES OF PAYMENT FOR THE 2023A BONDS – Senior Obligations" and "– Subordinated Obligations" and "WATER SYSTEM FINANCIAL OPERATIONS – Outstanding Indebtedness."

**Additional Obligations**

Pursuant to the Master Installment Purchase Agreement, the City may and expects to incur additional Obligations, payments with respect to which will be on parity with or subordinate to the City's obligation to make 2023 Installment Payments, subject to satisfaction of the conditions specified in the Master Installment Purchase Agreement. In addition, the loan agreements executed by the City in connection with certain of the SRF Loans and the WIFIA Loans provide for additional requirements for the incurrence of additional Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2023A BONDS – Incurrence of Additional Obligations," "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan," and "WATER SYSTEM FINANCIAL OPERATIONS – Anticipated Additional Obligations."

**The City of San Diego**

The City, with a total population of approximately 1.4 million as of January 1, 2022 and a land area of approximately 325 square miles, is the eighth largest city in the nation by population, and the second largest city by population (and land area) in California. The City is the county seat for the County of San Diego. Major components of the City's diversified economy include defense, tourism, biotechnology/biosciences, financial and business services, software and telecommunications. The City's economic base is also anchored by higher education and major scientific research institutions, including the University of California, San Diego, San Diego State University, Scripps Research Institute, the Salk Institute for Biological Studies, and the San Diego Supercomputer Center.

The City was incorporated in 1850. The City operates under and is governed by the laws of the State and the City Charter, as periodically amended since its adoption by the electorate in 1931. The City has been operating under a "Strong Mayor" form of government since January 1, 2006. Under the Strong Mayor form of government, the Mayor is the Chief Executive Officer of the City and has direct oversight over all City functions and services except for the City Council, Personnel, City Clerk, Independent Budget Analyst, Ethics Commission, City Attorney and City Auditor's departments.

## The Water System

The City owns the Water System and operates the Water System through the Public Utilities Department (the "Department"). The City has expanded the Water System from time to time to provide safe, reliable water in an efficient, cost-effective and environmentally responsible manner. See "WATER SYSTEM ORGANIZATION AND MANAGEMENT," "WATER SYSTEM SERVICE AREA AND FACILITIES," "WATER SUPPLY," "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM," and "WATER SYSTEM FINANCIAL OPERATIONS."

## The Corporation

The Corporation is a nonprofit public benefit corporation duly organized and existing under and by virtue of the laws of the State. The Corporation was organized to acquire, lease, and/or sell to the City real and personal property to be used in the municipal operations of the City. The Corporation was formed at the request of the City to assist in financings such as the installment purchase financing described herein and is governed by its own Board of Directors. The Corporation is prohibited from engaging in any business or activities other than those incidental to its sole purpose, and no part of its net earnings may accrue to the benefit of any person or entity other than the City.

The Corporation has no liability to the owners or Beneficial Owners of any 2023A Bonds, and has pledged none of its moneys, funds or assets to any Installment Payments including, without limitation, the 2023 Installment Payments or any payments under the 2023A Bonds. Pursuant to the Assignment Agreement, the Corporation has assigned its right to receive the 2023 Installment Payments to the Authority.

## The Authority

The Authority is a California joint exercise of powers authority established pursuant to the Third Amended and Restated Joint Exercise of Powers Agreement, dated as of January 1, 2013, by and among the City, the City solely in its capacity as the designated successor agency (the "Successor Agency") to the former Redevelopment Agency of the City of San Diego (the "Former RDA"), and the Housing Authority of the City of San Diego (the "Housing Authority"). The Authority is organized, in part, to finance certain public capital improvements of the City, the Successor Agency or the Housing Authority.

Except as provided in the Indenture, the Authority has no liability to the owners or Beneficial Owners of any of the 2023A Bonds and has pledged none of its moneys, funds or assets toward the payment of any amount due in connection with the 2023A Bonds. The Indenture provides that the Authority transfers, conveys and assigns to the Trustee, for the benefit of the Owners, all of the Authority's rights under the Master Installment Purchase Agreement, including the right to receive the 2023 Installment Payments from the City, the right to receive any proceeds of insurance maintained thereunder or any condemnation award rendered with respect to the related Components, and the right to exercise any remedies provided therein in the event of a default by the City under the Master Installment Purchase Agreement.

The Authority is governed by its own Board of Commissioners consisting of the members of the San Diego City Council. The Authority is dependent upon the officers and employees of the City to administer its programs.

### Forward-Looking Statements

Certain statements, tables and charts included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements, tables and charts are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "project" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Although such expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. Further, the Authority has not verified and assumes no responsibility for any forward-looking statements included herein and attributed to any third party including The Metropolitan Water District of Southern California ("MWD") and the San Diego County Water Authority ("CWA"). See "WATER SYSTEM ORGANIZATION AND MANAGEMENT." The Authority is not obligated to issue any updates or revisions to the forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur.

## PLAN OF FINANCE

### General

The proceeds of the 2023A Bonds will be used to (a) finance capital improvements to the Water System, (b) pay all the Outstanding principal of the Commercial Paper Notes, and (c) pay the costs of issuance incurred in connection with the issuance of the 2023A Bonds.

The following tables set forth the components of the Project (as defined in the Master Installment Purchase Agreement) that were funded with the proceeds of the Commercial Paper Notes as part of the Water System Capital Improvement Program (the "Water System CIP") and the projected components of the Project to be funded with the proceeds of the 2023A Bonds. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Description of Major Projects."

| Project Type | Capital Expenditures Funded by Commercial Paper Notes |
|---|---|
| Water Pipelines – Distribution | $152,605,000 |
| Water Pipelines – Transmission | 43,730,000 |
| Water Treatment Plants | 13,667,000 |
| Miscellaneous Projects | 3,789,000 |
| Pump Stations | 6,236,000 |
| Water Storage Facilities | 5,903,000 |
| **Total** | $225,930,000 |

| Project Type | Projected Near-Term Capital Expenditures to be Funded by 2023A Bonds |
|---|---|
| Water Pipelines – Distribution | $19,401,000 |
| Water Pipelines – Transmission | 3,591,000 |
| Water Treatment Plants | 219,000 |
| Miscellaneous Projects | 3,000 |
| Pump Stations | 536,000 |

| | |
|---|---|
| Water Storage Facilities | 320,000 |
| **Total** | $24,070,000 |

Principal of and interest on the Commercial Paper Notes Outstanding as of the date of this Official Statement will be paid from a portion of the proceeds of the 2023A Bonds. To facilitate payment of such Commercial Paper Notes, a portion of the proceeds of the 2023A Bonds will be deposited into an escrow account (the "Escrow Fund") to be created and maintained by U.S. Bank Trust Company, National Association, as escrow agent (the "Escrow Agent") pursuant to an Escrow Agreement, dated as of April 1, 2023 (the "Escrow Agreement"), by and between the Authority and the Escrow Agent. Amounts in the Escrow Fund will be invested in Federal Securities and/or Pre-Refunded Municipals such that the principal of and investment earnings on such investments will be sufficient to pay the principal of and interest coming due and payable on the Commercial Paper Notes on [CP Payment Date]. [To be reviewed upon final City determination.]

## ESTIMATED SOURCES AND USES OF BOND PROCEEDS

The following table details the sources and uses of the proceeds of the sale of the 2023A Bonds and other available funds.

| | |
|---|---|
| **Sources:** | |
| Principal Amount | $ |
| Net Original Issue Premium/ (Discount) | |
| Total Sources | $ |
| | |
| **Uses:** | |
| Deposit into 2023A Acquisition Fund | $ |
| Pay Commercial Paper Notes | |
| Pay Costs of Issuance(1) | |
| Total Uses | $ |

(1) Costs of Issuance for the 2023A Bonds, including all eligible costs of issuing the 2023A Bonds, including fees of Bond Counsel and Disclosure Counsel, the Municipal Advisor, the Trustee, the rating agencies and the printer, the underwriters' discount, and other miscellaneous expenses.

## DESCRIPTION OF THE 2023A BONDS

### General

The 2023A Bonds will be issued as fully-registered bonds in denominations of $5,000 and any integral multiple thereof and, when issued, will be registered in the name of Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the 2023A Bonds. Ownership interests in the 2023A Bonds may be purchased in book-entry form only. So long as DTC or its nominee is the Owner of the 2023A Bonds, principal of, redemption premium, if any, and interest on the 2023A Bonds will be made as described in "APPENDIX D – INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM."

The 2023A Bonds will bear interest at the respective rates set forth on the inside cover page hereof. Interest on the 2023A Bonds will accrue from the date of delivery of the 2023A Bonds and is payable on February 1 and August 1 of each year, commencing on August 1, 2023. Interest on the 2023A Bonds shall be calculated on the basis of a 360-day year, comprised of twelve 30-day months. Interest coming due on a date that is not a Business Day shall be payable on the immediately following Business Day.

**Redemption of 2023A Bonds***

***Optional Redemption for the 2023A Bonds***. The 2023A Bonds maturing on and after ________ 1, 20__ shall be subject to redemption, in whole or in part, at the option of the Authority (upon the direction of the City), on or after ________ 1, 20__, at any time, from and to the extent of prepaid 2023 Installment Payments paid pursuant to the 2023 Supplement, at a redemption price equal to the principal amount of 2023A Bonds called for redemption, together with interest accrued thereon to the date fixed for redemption, without premium.

***Mandatory Sinking Fund Redemption***. The 2023A Bonds maturing on ________ 1, 20__ (the "2023A Term Bonds Maturing 20__") are subject to mandatory sinking fund redemption, with sinking account payments payable on ________ 1 in each of the years, at a redemption price of par, plus interest accrued to the date fixed for redemption, in the principal amounts as follows:

**2023A Term Bonds Maturing 20__**

| Sinking Fund Payment Dates (________ 1) | Principal Amount |
|---|---|
| | $ |

† Final maturity.

The 2023A Bonds maturing on ________ 1, 20__ (the "2023A Term Bonds Maturing 20__" and, together with the 2023A Term Bonds Maturing 20__, the "2023A Term Bonds") are subject to mandatory sinking fund redemption, with sinking account payments payable on ________ 1 in each of the years, at a redemption price of par, plus interest accrued to the date fixed for redemption, in the principal amounts as follows:

**2023A Term Bonds Maturing 20__**

| Sinking Fund Payment Dates (________ 1) | Principal Amount |
|---|---|
| | $ |

* Preliminary, subject to change.

† Final maturity.

The Authority may credit against any sinking account payment requirement 2023A Term Bonds or portions thereof which are of the same maturity as the 2023A Term Bonds subject to redemption and which, prior to said date, have been purchased with funds, other than moneys in a Sinking Account, at public or private sale or redeemed and cancelled by the Authority and not theretofore applied as a credit against any mandatory sinking account payment requirement.

***Notice of Redemption***. So long as DTC is acting as securities depository for the 2023A Bonds, notice of redemption, containing the information required by the Indenture, will be mailed by first class mail, postage prepaid, by the Trustee to DTC (not to the Beneficial Owners of any 2023A Bonds designated for redemption) not more than 60 days nor less than 30 days prior to the redemption date and shall state the date of such notice, the redemption price (including the name and appropriate address of the Trustee), and, in the case of 2023A Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said 2023A Bonds the principal amount thereof and, in the case of a 2023A Bond to be redeemed in part only, the specified portion of the principal amount thereof to be redeemed, together with interest accrued thereon to the redemption date, and that from and after such redemption date, interest thereon shall cease to accrue, and shall require that such 2023A Bonds be then surrendered at the address of the Trustee specified in the redemption notice. Notice of redemption may be conditioned upon the occurrence of future events, including but not limited to the issuance of refunding bonds, and may be given and rescinded by the Trustee prior to the redemption date, upon written instruction of the Authority.

***Selection for Redemption***. If less than all of the Outstanding 2023A Bonds are to be redeemed prior to maturity, the Authority (at the direction of the City) shall select the specific maturity and interest rate (or maturities of bonds and interest rates) of 2023A Bonds, or portions thereof equal to $5,000 or any integral multiple thereof, including any specified reduction in any sinking account payments required to be made with respect to such Outstanding 2023A Bonds, to be redeemed. If less than all of the 2023A Bonds of like maturity are to be redeemed and the Authority (at the direction of the City) does not make the selection described in the prior sentence, the Trustee will select the particular 2023A Bonds or portions of 2023A Bonds to be redeemed at random in such manner as the Trustee in its discretion may deem fair and appropriate.

***Effect of Redemption***. If notice of redemption has been duly given as provided in the Indenture and money for the payment of the redemption price of the 2023A Bonds called for redemption is held by the Trustee, then on the redemption date designated in such notice, the 2023A Bonds shall become due and payable, and from and after the date so designated, interest on the 2023A Bonds so called for redemption shall cease to accrue, and the Owners of such 2023A Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof. The insufficiency of any such notice shall not affect the sufficiency of the proceedings for redemption. If said moneys are not so available on the redemption date, such 2023A Bonds or portions thereof will continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption. If there is selected for redemption a portion of a 2023A Bond, the Authority will execute and the Trustee for that 2023A Bond will authenticate and deliver, upon the surrender of such 2023A Bond, without charge to the Owner thereof, for the unredeemed balance of the principal amount of the 2023A Bond so surrendered, a 2023A Bond of like maturity and interest rate in any authorized denomination.

## SECURITY AND SOURCES OF PAYMENT FOR THE 2023A BONDS

### Pledge of Revenues; Installment Payments

Pursuant to the Indenture, the 2023A Bonds are limited obligations of the Authority payable solely from the Revenues and amounts on deposit in the Bonds Payment Fund established under the Indenture. The term "Revenues," as applied to the 2023A Bonds, means all 2023 Installment Payments received by or due to be paid to the Corporation pursuant to the 2023 Supplement and the interest or profits from the investment of money in the Bonds Payment Fund pursuant to the Indenture. The 2023 Installment Payments will be assigned by the Corporation to the Authority pursuant to the Assignment Agreement. To secure the pledge of the Revenues, the Authority will transfer, convey, and assign to the Trustee, for the benefit of the Owners, all of the Authority's right to receive 2023 Installment Payments from the City. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture."

### The Water Utility Fund; Application of System Revenues

The City accounts for its water operations through an enterprise fund known as the "Water Utility Fund." The Water Utility Fund was established pursuant to an amendment to the City Charter effective February 11, 1963, and is accounted for separately from other funds of the City. The City has agreed and covenanted in the Master Installment Purchase Agreement that all System Revenues shall be received by the City in trust and shall be deposited when and as received in the Water Utility Fund, which fund the City agrees and covenants to maintain so long as any Obligations remain unpaid, and all moneys in the Water Utility Fund shall be so held in trust and applied and used solely in the amounts, at the times and only for the purposes specified below and in the following order of priority; provided that no amount shall be transferred on any date pursuant to any clause below until amounts sufficient for all the purposes specified under the prior clauses shall have been transferred or set aside; and provided further that in the event there are insufficient Net System Revenues to make all of the payments contemplated in any one clause below, then said transfers, deposits and payments directed by such clause shall be made as nearly as practicable, pro rata, based upon the respective unpaid principal amounts of the Obligations addressed by such clause:

First, the City shall pay from the Water Utility Fund directly or as otherwise required all Maintenance and Operation Costs of the Water System;

Second, on each "Senior Obligation Interest Funding Date" (being each Senior Obligation Installment Payment Date on which the Interest Portion is due and payable under the Master Installment Purchase Agreement as well as each date on which interest is due and payable on any Senior Obligation under any other Issuing Instrument (as defined herein)) and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Interest Account (established under the Indenture as the Interest Account in connection with Senior Obligations and to distinguish the same from the Subordinated Bonds Interest Account and sometimes referred to as the Senior Bonds Interest Account) of the Payment Fund (established under the Indenture as the Payment Fund in connection with Senior Obligations and to distinguish the same from the Subordinated Bonds Payment Fund and sometimes referred to as the Senior Bonds Payment Fund), the sum of (A) an amount equal to the interest due and payable on all Senior Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Senior Bonds Interest Account on any preceding Senior Obligation Interest Funding Date;

Third, on each "Senior Obligation Principal Funding Date" (being each Senior Obligation Installment Payment Date on which the Principal Portion is due and payable under the Master Installment Purchase Agreement as well as each date on which principal or mandatory sinking fund redemptions are due and payable on any Senior Obligation under any other Issuing Instrument) and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Senior Obligations Principal Account of the Senior Bonds Payment Fund, the sum of (A) an amount equal to the principal and mandatory sinking fund redemptions due and payable on all Senior Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Senior Obligations Principal Account on any preceding Senior Obligation Principal Funding Date;

Fourth, on each Senior Obligation Interest Funding Date, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in any Senior Obligations Reserve Account (if any) the amount necessary so that the balance therein equals the applicable Senior Obligations Reserve Requirement; provided that in the event of any draw on a Reserve Fund Credit Facility held in any Senior Obligations Reserve Account, there shall be deemed a deficiency in such Senior Obligations Reserve Account until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount;

Fifth, on each "Subordinated Obligation Interest Funding Date" (being each Subordinated Obligation Installment Payment Date on which the Interest Portion is due and payable under the Master Installment Purchase Agreement as well as each date on which interest is due and payable on any Subordinated Obligation under any other Issuing Instrument) and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Subordinated Bonds Interest Account of the Subordinated Obligations Payment Fund, the sum of (A) an amount equal to the interest due and payable on all Subordinated Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Subordinated Bonds Interest Account on any preceding Subordinated Obligation Interest Funding Date;

Sixth, on each "Subordinated Obligation Principal Funding Date" (being each Subordinated Obligation Installment Payment Date on which the Principal Portion is due and payable under the Master Installment Purchase Agreement as well as each date on which principal or mandatory sinking fund redemptions are due and payable on any Subordinated Obligation under any other Issuing Instrument) and on each other date on which the following amounts shall be due and payable, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in the Subordinated Obligations Principal Account of the Subordinated Obligations Payment Fund, the sum of (A) an amount equal to the principal and mandatory sinking fund redemptions due and payable on all Subordinated Obligations; plus (B) an amount equal to any continuing shortfall in transfers required to have been made to the Subordinated Obligations Principal Account on any preceding Funding Date; and

Seventh, on each Subordinated Obligation Interest Funding Date, the City shall transfer Net System Revenues from the Water Utility Fund to the Collateral Agent, for deposit in any Subordinated Obligations Reserve Account (if any) the amount necessary so that the balance therein equals the applicable Subordinated Obligations Reserve Requirement; provided that in the event of any draw on a Reserve Fund Credit Facility held in any Subordinated Obligations Reserve

Account, there shall be deemed a deficiency in such Subordinated Obligations Reserve Account until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount.

After the deposits described in the preceding paragraphs have been made, any amounts thereafter remaining in the Water Utility Fund may be used for any lawful purpose of the Water System. "Issuing Instrument" means any indenture, trust agreement, loan agreement, lease, installment purchase agreement or the Installment Purchase Agreement, including any Supplement or other instrument under which Obligations are issued or created. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

**Pledge of Net System Revenues; Payment of Installment Payments**

The Master Installment Purchase Agreement provides for the payment by the City of Senior Obligations and Subordinated Obligations in amounts sufficient to make payments of the principal of and interest on Bonds of the Authority. Pursuant to the Master Installment Purchase Agreement, including as supplemented by the Collateral Agency Agreement, all Senior Obligations, including Senior Installment Payment Obligations, shall be secured by a first priority lien on and pledge of Net System Revenues. The City grants to the Collateral Agent, for the benefit of the Holders of Senior Obligations, a first priority lien on and pledge of Net System Revenues to secure Senior Obligations. Subject to the limits described in the Master Installment Purchase Agreement, all Senior Obligations shall be of equal rank with each other without preference, priority or distinction of any Senior Obligations over any other Senior Obligations.

Pursuant to the Master Installment Purchase Agreement, including as supplemented by the Collateral Agency Agreement, all Subordinated Obligations, including Subordinated Installment Payment Obligations, shall be secured by a second priority lien on and pledge of Net System Revenues that is junior and subordinate to the lien on and pledge of Net System Revenues securing Senior Obligations. The City grants to the Collateral Agent, for the benefit of the Holders of Subordinated Obligations, a second priority lien on and pledge of Net System Revenues to secure Subordinated Obligations. All Subordinated Obligations shall be of equal rank with each other without preference, priority or distinction of any Subordinated Obligations over any other Subordinated Obligations; provided that a Subordinated Obligation that by its terms under certain circumstances can require the full amount of the Subordinated Obligation to become payable in installments over not less than five years from the triggering event shall not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Subordinated Obligation over any other Subordinated Obligation; and provided further that a Subordinated Obligation that by its terms under certain circumstances must be treated as, or becomes, a Senior Obligation shall not be deemed to create any impermissible preference, priority or distinction as to lien or otherwise of such Subordinated Obligation over any other Subordinated Obligation. Pursuant to the Master Installment Purchase Agreement, in the event of a declaration of acceleration by the Corporation after an Event of Default under the Master Installment Purchase Agreement, all Net System Revenues (as defined herein) received thereafter shall be applied to payment of principal of and interest on Senior Obligations prior to payment of any Subordinated Obligations. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2023A BONDS – Application of Net System Revenues and Other Amounts Under the Collateral Agency Agreement" and " – The Collateral Agency Agreement."

Pursuant to the Master Installment Purchase Agreement, the City agrees to make Installment Payments (including the 2023 Installment Payments) solely from Net System

Revenues. The 2023 Installment Payments shall be Senior Obligations under the Master Installment Purchase Agreement and the payment of the 2023 Installment Payments shall be on parity with the 2020 Installment Payments and the SRF Loans, and senior to the 2016 Subordinated Installment Payments, the 2018 Subordinated Installment Payments, Commercial Paper Note Subordinated Installment Payments and the Installment Payments with respect to the WIFIA Loans under the Master Installment Purchase Agreement. No Owner of the Obligations shall have any right to take any action or enforce any right that has a materially adverse effect on the interests of the Owners of the Installment Payment Obligations. The City agrees to make Installment Payments solely from Net System Revenues until such time as the Purchase Price for any Components has been paid in full (or provision for the payment thereof has been made pursuant to the Master Installment Purchase Agreement).

The 2023 Supplement provides for the payment by the City of 2023 Installment Payments in amounts sufficient to make payments of the principal of and interest on the 2023A Bonds. The 2023 Installment Payments securing payment of the 2023A Bonds are payable from Net System Revenues on a basis that is on parity to the right of payment by the City of its Outstanding Senior Obligations (as defined herein) under the Master Installment Purchase Agreement and senior to the Subordinated Water Revenue Bonds, Series 2016A (the "2016A Subordinated Bonds"), the Subordinated Water Revenue Bonds, Series 2016B (the "2016B Subordinated Bonds" and, together with the 2016A Subordinated Bonds, the "2016 Subordinated Bonds"), the Subordinated Water Revenue Bonds, Series 2018A (the "2018A Subordinated Bonds"), the WIFIA Loans, and the Commercial Paper Notes.

Under the Master Installment Purchase Agreement, the City has agreed that it will not discontinue or suspend any Installment Payments (including the 2023 Installment Payments) required to be made by the City under the Master Installment Purchase Agreement, whether or not the Project or any part thereof is operating or operable or has been completed, or its use is suspended, interfered with, reduced, curtailed, or terminated, in whole or in part, and such Installment Payments (including the 2023 Installment Payments) shall not be subject to reduction, whether by offset or otherwise, and will not be conditioned upon the performance or nonperformance by any party of any agreement for any cause whatsoever.

The term "Net System Revenues" is defined in the Master Installment Purchase Agreement as, for any Fiscal Year, the System Revenues for such Fiscal Year, less the Maintenance and Operation Costs of the Water System for such Fiscal Year.

The term "System Revenues" is defined in the Master Installment Purchase Agreement as all income, rents, rates, fees, charges, and other moneys derived from the ownership or operation of the Water System, including, without limiting the generality of the foregoing: (a) all income, rents, rates, fees, charges, or other moneys derived by the City from the water services or facilities, and commodities or byproducts, including hydroelectric power, sold, furnished or supplied through the facilities of or in the conduct or operation of the business of the Water System, and including, without limitation, investment earnings on the operating reserves to the extent that the use of such earnings is limited to the Water System by or pursuant to law, and earnings on any Reserve Fund for Obligations, but only to the extent that such earnings may be utilized under the indenture, trust agreement, loan agreement, lease, or installment purchase agreement under which the applicable Obligations are issued (each, an "Issuing Instrument") for the payment of debt service for such Obligations; (b) standby charges and Capacity Charges derived from the services and facilities sold or supplied through the Water System; (c) the proceeds derived by the City directly or indirectly from the lease of a part of the Water System; (d) any amount received from the levy or collection of taxes that are solely available and are earmarked for the support of the operation of the Water System; (e) amounts received under contracts or agreements with governmental or private entities and designated for capital costs for the Water System; and (f) grants for maintenance and operations received from the United States of America or from the State; provided, however, that System Revenues shall not include: (1) in all cases, customers' deposits or any other deposits or advances subject to refund until such deposits or advances have become the property of the City; and (2) the proceeds of borrowings. Notwithstanding the foregoing, there shall be deducted from System Revenues any amounts transferred into a Rate Stabilization Fund Reserve as contemplated by the Master Installment Purchase Agreement and any amounts transferred from current System Revenues to the Secondary Purchase Fund as permitted by the Master Installment Purchase Agreement. There shall be added to System Revenues any amounts transferred out of such Rate Stabilization Fund Reserve or the Secondary Purchase Fund to pay Maintenance and Operation Costs of the Water System. See "WATER SYSTEM FINANCIAL OPERATIONS – Water Utility Fund Reserves – Rate Stabilization Fund Reserve" and "– Secondary Purchase Reserves."

The term "Maintenance and Operation Costs of the Water System" is defined in the Master Installment Purchase Agreement as (a) any Qualified Take or Pay Obligation, and (b) the reasonable and necessary costs spent or incurred by the City for maintaining and operating the Water System, calculated in accordance with generally accepted accounting principles, including (among other things) the reasonable expenses of maintenance and repair and other expenses necessary to maintain and preserve the Water System in good repair and working order, and including administrative costs of the City attributable to the Water System, including the Project and the Master Installment Purchase Agreement, salaries and wages of employees of the Water System, payments to such employees' retirement systems (to the extent paid from System Revenues), overhead, taxes (if any), fees of auditors, accountants, attorneys or engineers, and insurance premiums, and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Obligations, including the Master Installment Purchase Agreement, including any amounts required to be deposited in the Rebate Fund pursuant to a Tax Certificate, and fees and expenses payable to any Credit Provider (other than in repayment of a "Credit Provider Reimbursement Obligation"), but excluding in all cases (1) depreciation, replacement, and obsolescence charges or reserves therefor, (2) amortization of intangibles or other bookkeeping entries of a similar nature, (3) costs of capital additions, replacements, betterments, extensions, or improvements to the Water System, which under generally accepted accounting principles are chargeable to a capital account or to a reserve for depreciation, (4) charges for the payment of principal of and interest on any general obligation bond heretofore or hereafter issued for Water System purposes, and (5) charges for the payment of principal of and interest on any debt service on account of any Obligation on parity with or subordinate to the Installment Payments.

The term "Obligations" is defined in the Master Installment Purchase Agreement as (i) obligations of the City for money borrowed (such as bonds, notes, or other evidences of indebtedness) or as installment purchase payments under any contract (including Installment Payments), or as lease payments under any financing lease (determined to be such in accordance with generally accepted accounting principles), the principal of and interest on which are payable from Net System Revenues; (ii) obligations to replenish any debt service reserve funds with respect to such obligations of the City; (iii) obligations secured by or payable from any of such obligations of the City; and (iv) obligations of the City payable from Net System Revenues under (a) any contract providing for payments based on levels of, or changes in, interest rates, currency exchange rates, stock or other indices, (b) any contract to exchange cash flows or a series of payments, or (c) any contract to hedge payment, currency, rate spread, or similar exposure, including, but not limited, to interest rate cap agreements.

All Senior Obligations (referred to as "Parity Obligations" in the Master Installment Purchase Agreement) are of equal rank with each other without preference, priority, or distinction of any Senior Obligations over any other Senior Obligations. The term "Senior Obligations" is defined in the Master Installment Purchase Agreement as (i) Installment Obligations (as defined herein), (ii) Obligations, the principal of and interest on which are payable on parity with Installment Obligations, and (iii) Reserve Fund Obligations. The term "Installment Obligations" is defined in the Master Installment Purchase Agreement as Obligations consisting of or payable from Installment Payments, which are not subordinated in right of payment to other Installment Payments. The term "Credit Provider" is defined in the Master Installment Purchase Agreement as any municipal bond insurance company, bank, or other financial institution or organization that is performing in all material respects its obligations under any policy of insurance, letter of credit, standby purchase agreement, revolving credit agreement, or other credit arrangement providing credit support or liquidity with respect to Senior Obligations (each, a "Credit Support Instrument"). The term "Reserve Fund Obligations" is defined in the Master Installment Purchase Agreement as the obligations of the City to pay amounts advanced under any Reserve Fund Credit Facility entered into in accordance with the provisions of the related Issuing Instrument or Supplement, which obligations shall constitute Senior Obligations or Subordinated Obligations, as designated by the City.

**Senior Obligations**

The pledge and right of payment from Net System Revenues securing the 2023 Installment Payments (which, in turn, secure the payment of the 2023A Bonds) will be on parity with the pledge and right of payment from Net System Revenues securing the existing SRF Loans and the 2020 Bonds Outstanding as of March 1, 2023 in the principal amount of $366,107,692, and any Senior Obligations hereinafter incurred by the City. See "INTRODUCTION – Outstanding Senior and Subordinated Obligations" above, "WATER SYSTEM FINANCIAL OPERATIONS – Outstanding Indebtedness," and "WATER SYSTEM FINANCIAL OPERATIONS – Anticipated Additional Obligations." All Senior Obligations are secured by a first priority lien on and pledge of Net System Revenues.

**Subordinated Obligations**

The Master Installment Purchase Agreement permits the issuance of Obligations secured by a lien on and pledge of Net System Revenues, which lien and pledge is subordinate to the lien on and pledge of Net System Revenues securing Senior Obligations (each, a "Subordinated Obligation"). The pledge and right of payment from Net System Revenues securing the 2023 Installment Payments (which, in turn, secure the payment of the 2023A Bonds) will be senior to the pledge and right of payment from Net System Revenues securing Subordinated Obligations incurred in accordance with the Master Installment Purchase Agreement, including the Installment Payments securing the Subordinated Obligations Outstanding as of March 1, 2023 in the principal amount of $983,608,742, which includes $225,930,000 aggregate principal amount of Commercial Paper Notes (all of which will be repaid with proceeds of the 2023A Bonds), that are on parity with the other Subordinated Obligations, $612,460,000 aggregate principal amount of Subordinated Bonds, $145,218,742 drawn under the 2020 WIFIA Loan and the 2020 WIFIA Loan Agreement and any Subordinated Obligations hereinafter incurred by the City. See TABLE 20 "OUTSTANDING DEBT." The Outstanding Subordinated Obligations principal amount does not include the $588,281,258 that remains to be drawn under the WIFIA Loans. Under the Indenture, the aggregate principal amount of Commercial Paper Notes Outstanding at any time may not exceed $250 million, as described below. See "WATER SYSTEM FINANCIAL OPERATIONS – Outstanding Indebtedness."

In 2017, the City established the Commercial Paper Notes program and authorized the issuance of up to $250 million in Commercial Paper Notes that are secured by Subordinated Installment Payments under the Master Installment Payment Agreement. The Commercial Paper Notes are payable from draws made under an irrevocable transferable direct-pay letter of credit (the "CP Letter of Credit") issued by Bank of America, N.A. (the "CP Bank"). Unless extended or terminated sooner in accordance with its terms, the CP Letter of Credit has a stated maturity date of January 31, 2025. To provide credit support for the Commercial Paper Notes, the City entered into a reimbursement agreement (the "CP Reimbursement Agreement") with the CP Bank pursuant to which the CP Bank issued the irrevocable transferable direct-pay letter of credit described above. In the event the City does not immediately reimburse the CP Bank for a drawing under the CP Letter of Credit, the City is required pursuant to the CP Reimbursement Agreement to pay all principal of and interest due to the CP Bank as a result of such drawing within three years of the applicable date of the original drawing. Upon the happening of an event of default under the CP Reimbursement Agreement, the obligations of the City to the applicable CP Bank may become immediately due and payable. Events of default under the CP Reimbursement Agreements include, but are not limited to (i) failure to pay principal of or interest on any drawing, advance or other obligations under the CP Reimbursement Agreement, (ii) failure to perform the terms of the applicable CP Reimbursement Agreement, (iii) defaults in any payment of any Senior Obligations or Subordinate Obligations, and (iv) certain downgrades of Subordinate Obligation ratings. Any obligations of the Authority incurred pursuant to the CP Reimbursement Agreements are Subordinate Installment Payments secured by Net System Revenues of the Water Utility fund.

**Application of Net System Revenues and Other Amounts under the Collateral Agency Agreement**

Pursuant to the Collateral Agency Agreement, the Collateral Agent shall make the following withdrawals, transfers, and payments from the accounts established under the Collateral Agency Agreement into which Net System Revenues have been deposited by the City pursuant to the Master Installment Purchase Agreement:

(i) on each Senior Obligation Interest Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders (as such term is defined in the Collateral Agency Agreement) of Senior Obligations, from the Senior Obligations Interest Account, the interest due and payable, including any amounts overdue and payable, on such date to Holders of Senior Obligations; provided that if the amount on deposit in the Senior Obligations Interest Account is insufficient therefor, the Collateral Agent shall pay each Senior Obligation Holder a Pro Rata Amount.

(ii) on each Senior Obligation Principal Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders of Senior Obligations, from the Senior Obligations Principal Account, the principal and mandatory sinking fund redemptions due and payable, including any amounts overdue and payable, on such date to Holders of Senior Obligations; provided that if the amount on deposit in the Senior Obligations Principal Account is insufficient therefor, the Collateral Agent shall pay each Senior Obligation Holder a Pro Rata Amount.

(iii) on each Senior Obligation Interest Payment Date, the Collateral Agent shall transfer to the holder of each Senior Obligations Reserve Fund (if any) the amount set forth in a written direction of the City, which shall be no more than the amount necessary so that the balance therein equals the applicable Reserve Requirement; provided that if the amount on deposit in the Senior Obligations Reserve Account is insufficient therefor, the Collateral Agent shall transfer to each holder of a Senior Obligations Reserve Fund a Pro Rata Amount; and provided further that in the event of any draw on a Reserve Fund Credit Facility held in any Senior Obligations Reserve Fund, there shall be deemed a deficiency in such Senior Obligations Reserve Fund until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount.

(iv) on each Subordinated Obligation Interest Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders of Subordinated Obligations, from the Subordinated Obligations Interest Account, the interest due and payable, including any amounts overdue and payable, on such date to Holders of Subordinated Obligations; provided that if the amount on deposit in the Subordinated Obligations Interest Account is insufficient therefor, the Collateral Agent shall pay each Subordinated Obligation Holder a Pro Rata Amount.

(v) on each Subordinated Obligation Principal Payment Date and on each other date on which the following amounts shall be due and payable, the Collateral Agent shall pay to the Holders of Subordinated Obligations, from the Subordinated Obligations Principal Account, the principal and mandatory sinking fund redemptions due and payable, including any amounts overdue and payable, on such date to Holders of Subordinated Obligations; provided that if the amount on deposit in the Subordinated Obligations Principal Account is insufficient therefor, the Collateral Agent shall pay each Subordinated Obligation Holder a Pro Rata Amount.

(vi) on each Subordinated Obligation Interest Payment Date, the Collateral Agent shall transfer to the holder of each Subordinated Obligations Reserve Fund (if any) the amount set forth in a written direction of the City, which shall be no more than the amount necessary so that the balance therein equals the applicable Reserve Requirement; provided that if the amount on deposit in the Subordinated Obligations Reserve Account is insufficient therefor, the Collateral Agent shall transfer to each holder of a Subordinated Obligations Reserve Fund a Pro Rata Amount; and provided further that in the event of any draw on a Reserve Fund Credit Facility held in any Subordinated Obligations Reserve Fund, there shall be deemed a deficiency in such Subordinated Obligations Reserve Fund until the amount of the Reserve Fund Credit Facility is restored to its pre-draw amount.

"Pro Rata Amount" means, with respect to any payment to be made to a holder of a Secured Obligation from funds held by the Collateral Agent in the applicable account under the Collateral

Agency Agreement, an amount equal to the total amount of funds held by the Collateral Agent in such account and available to make such payment to all holders of Secured Obligations entitled to receive such payment multiplied by the quotient of the amount of such payment due and payable on such date to such holder divided by the amount of such payment due and payable on such date to all holders entitled to receive such payment.

Nothing in the Collateral Agency Agreement or the Master Installment Purchase Agreement affects or diminishes the rights and remedies of the holders of Secured Obligations under their respective Issuing Instruments, including any right in such Issuing Instrument to accelerate amounts due under the applicable Secured Obligations. Pursuant to the Master Installment Purchase Agreement, as supplemented by the Collateral Agency Agreement, the acceleration of Subordinated Obligations may only occur after all Senior Obligations have been paid in full. Pursuant to the Indenture, so long as any Senior Bonds remain Outstanding under the Indenture, no Owners of Subordinated Bonds shall have the right to declare an Event of Default, to declare any Subordinated Bonds immediately due and payable or to direct the Trustee or waive any Event of Default. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Collateral Agency, Account and Assignment Agreement."

**Incurrence of Additional Obligations**

***Under the Master Installment Purchase Agreement.*** Pursuant to the Master Installment Purchase Agreement the City may not create any Obligations, the payments of which are senior or prior in right to the payment by the City of Senior Obligations.

Without regard to the terms of the next paragraph, the City may at any time enter into or create an obligation or commitment which is a Reserve Fund Obligation, provided that the Obligation to which the Reserve Fund Obligation relates is permitted to be entered into under the terms of the Master Installment Purchase Agreement.

The City may at any time and from time to time issue or create any other Senior Obligations, provided that:

(1) There shall not have occurred and be continuing an Event of Default under the terms of the Master Installment Purchase Agreement, any Issuing Instrument or any Credit Support Instrument; and

(2) The City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that:

(A) the Net System Revenues as shown by the books of the City for any 12-consecutive-month period within the 18 consecutive months ending immediately prior to the incurring of such additional Senior Obligations shall have amounted to or exceeded the greater of (i) at least 1.20 times the Maximum Annual Debt Service on all Senior Obligations to be Outstanding immediately after the issuance of the proposed Senior Obligations or (ii) at least 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Senior Obligations. For purposes of preparing the certificate or certificates described above, the City or its Consultant may rely upon audited financial statements, or, if audited financial statements for the period are not available, financial statements prepared by the City that have not been subject to audit by an Independent Certified Public Accountant; or

(B) the estimated Net System Revenues for the five Fiscal Years following the earlier of (i) the end of the period during which interest on those Senior Obligations is to be capitalized or, if no interest is to be capitalized the Fiscal Year in which the Senior Obligations are issued, or (ii) the date on which substantially all new Components to be financed with such Senior Obligations are expected to commence operations, will be at least equal to 1.20 times the Maximum Annual Debt Service for all Senior Obligations which will be Outstanding immediately after the issuance of the proposed Senior Obligations.

For purposes of the computations to be made as described in paragraph (2)(B) above, the determination of Net System Revenues:

(1) may take into account any increases in rates and charges which relate to the Water System and which have been approved by the City Council, and is required to take into account any reduction in such rates and charges which have been approved by the City Council, which will, for purposes of the test described in paragraph (2)(B) above, be effective during a Fiscal Year ending within the five-Fiscal Year period for which such estimate is being made; and

(2) may take into account an allowance for any estimated increase in such Net System Revenues from any revenue-producing additions or improvements to or extensions of the Water System to be made with the proceeds of such additional indebtedness or with the proceeds of Senior Obligations previously issued, all in an amount equal to the estimated additional average annual Net System Revenues to be derived from such additions, improvements and extensions during the five-Fiscal Year period contemplated by paragraph (2)(B) above, all as shown by such certificate of the City or its Consultant, as applicable; and

(3) for the period contemplated by paragraph (2)(B) above, Maintenance and Operation Costs of the Water System shall initially be deemed to be equal to such costs for the 12 consecutive months immediately prior to incurring such other Senior Obligations for the first Fiscal Year of the five-Fiscal Year period, but adjusted if deemed necessary by the City or its Consultant, as applicable, for any increased Maintenance and Operations Costs of the Water System which are, in the judgment of the City or such Consultant, as applicable, essential to maintaining and operating the Water System and which will occur during any Fiscal Year ending within the period contemplated by paragraph (2)(B) above.

The certificate or certificates described above in paragraph (2)(B) above may not be required if the Senior Obligations being issued are for the purpose of refunding (A) any then Outstanding Senior Obligations if at the time of the issuance of such Senior Obligations a certificate of an Authorized City Representative is required to be delivered showing that the sum of Adjusted Debt Service on all Senior Obligations Outstanding for all remaining Fiscal Years after the issuance of the refunding Senior Obligations will not exceed the sum of Adjusted Debt Service on all Senior Obligations Outstanding for all remaining Fiscal Years prior to the issuance of such refunding Senior Obligations; or (B) then Outstanding Balloon Indebtedness, Tender

Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased pursuant to a standby purchase or other liquidity facility relating to such indebtedness.

Without regard to the provisions of the third paragraph of under "– Under the Master Installment Purchase Agreement", if (i) no Event of Default has occurred and is continuing and (ii) no event of default or termination event attributable to an act of or failure to act by the City under any Credit Support Instrument has occurred and is continuing, the City may issue or incur Subordinated Obligations, and such Subordinated Obligations must be paid in accordance with the provisions the of Master Installment Purchase Agreement, provided that:

(1) City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that:

(A) the Net System Revenues as shown by the books of the City for any 12-consecutive-month period within the 18 consecutive months ending immediately prior to the incurring of such additional Subordinated Obligations shall have amounted to at least 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Subordinated Obligations; or

(B) the estimated Net System Revenues for the five Fiscal Years following the earlier of (i) the end of the period during which interest on those Subordinated Obligations is to be capitalized or, if no interest is to be capitalized, the Fiscal Year in which the Subordinated Obligations are issued; or (ii) the date on which substantially all new facilities financed with such Subordinated Obligations are expected to commence operations, will be at least equal to 1.00 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed Subordinated Obligations.

(2) For purposes of preparing the certificate or certificates described in clause (1) of above, the City and its Consultant(s) may rely upon audited financial statements or, if audited financial statements for the period are not available, financial statements prepared by the City that have not been subject to audit by an Independent Certified Public Accountant,

(3) For purposes of the computations to be made as described in clause (B) above, the determination of Net System Revenues:

(A) may take into account any increases in rates and charges which relate to the Water System and which have been approved by the City Council and must take into account any reduction in such rates and charges which have been approved by the City Council, which will, for purposes of the test described in clause (B) above, be effective during any Fiscal Year ending within the five-Fiscal Year period for which such estimate is made; and

(B) may take into account an allowance for any estimated increase in such Net System Revenues from any revenue-producing additions or improvements to or extensions of the Water System to be made with the proceeds of such additional indebtedness, with the proceeds of Obligations previously issued or with cash contributions made or to be made by the City, all in an amount equal to the estimated additional average annual Net System Revenues to be derived from such additions, improvements and extensions during the five –Fiscal Year period contemplated by clause (B) above, all as shown by such certificate of the City or its Consultant, as applicable; and

(C) for the period contemplated by clause (B) above, must initially include Maintenance and Operation Costs of the Water System in an amount equal to such costs for any 12-consecutive-month period within the 24 consecutive months ending immediately prior to incurring such Subordinated Obligations for the first Fiscal Year of the five–Fiscal Year period, but adjusted if deemed necessary by the City or its Consultant, as applicable, for any increased Maintenance and Operations Costs of the Water System which are, in the judgment of the City or its Consultant, as applicable, essential to maintaining and operating the Water System and which will occur during any Fiscal Year ending within the period contemplated by clause (B) above.

(4) The certificate or certificates described above in paragraph (1) above will not be required if the Subordinated Obligations being issued are for the purpose of refunding (i) then Outstanding Senior Obligations or Subordinated Obligations if at the time of the issuance of such Subordinated Obligations a certificate of an Authorized City Representative is delivered showing that the sum of Debt Service for all remaining Fiscal Years on all Senior Obligations and Subordinated Obligations Outstanding after the issuance of the refunding Subordinated Obligations will not exceed the sum of Debt Service for all remaining Fiscal Years on all Senior Obligations and Subordinated Obligations Outstanding prior to the issuance of such refunding Subordinated Obligations; or (ii) then-Outstanding Balloon Indebtedness, Tender Indebtedness or Variable Rate Indebtedness, but only to the extent that the principal amount of such indebtedness has been put, tendered to or otherwise purchased by a standby purchase agreement or other liquidity facility relating to such indebtedness.

See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Amended and Restated Master Installment Purchase Agreement – System Revenues – Additional Obligations."

***Under SRF and WIFIA Loans***. The City's SRF Loans include conditions precedent to the incurrence of additional Obligations, which includes Senior Bonds. Among other things, the City has agreed that the incurrence of additional Senior Obligations or Subordinated Obligations, as the case may be, is subject to net system revenues (as defined in the applicable SRF Loan) during any 12-consecutive-month period within the 18 consecutive months ending immediately prior to the issuance of such debt obligation being at least 120% MADS (herein defined) on all outstanding Senior Obligations and the proposed additional debt, and at least 110% MADS (herein defined) on all outstanding Obligations and the proposed additional debt. The SRF Loans also include other, less restrictive requirements for the incurrence of additional Obligations than those described above. These covenants will continue to apply until the respective SRF Loans have been fully repaid.

The WIFIA Loan Agreements provide that the City may incur additional Senior Obligations and additional Subordinated Obligations so long as there shall have not occurred and be continuing an Event of Default under the Master Installment Purchase Agreement, any Issuing Instrument (including the WIFIA Loan Agreements) or any Credit Support Instrument that will not be cured by the application of the proceeds of the additional Obligations, and subject to the satisfaction of certain conditions, including, (i) the City may not incur any Senior Obligations, of which any proceeds are or will be applied to project costs of the Pure Water Program Phase 1, (ii) with respect to additional Senior Obligations, provision of a certificate showing that (1) the Net System Revenues as shown by the books of the City for any 12-consecutive-month period within the eighteen (18) consecutive months ending immediately prior to the incurring of such additional Senior Obligations shall have amounted to or exceeded the greater of (I) at least 1.20 times the Maximum Annual Debt Service on all Senior Obligations to be Outstanding immediately after the issuance of the proposed additional Senior Obligations or (II) at least 1.10 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed additional Senior Obligations, or (2) the estimated Net System Revenues for the five City Fiscal Years following the earlier of (I) the end of the period during which interest on those additional Senior Obligations is to be capitalized or, if no interest is to be capitalized, the City Fiscal Year in which the additional Senior Obligations are issued, or (II) the date on which substantially all new components to be financed with such additional Senior Obligations are expected to commence operations, will be at least equal to 1.20 times the Maximum Annual Debt Service for all Senior Obligations which will be Outstanding immediately after the issuance of the proposed additional Senior Obligations, and (iii) with respect to additional Subordinated Obligations, provision of a certificate showing (a) the Net System Revenues as shown by the books of the City for any 12-consecutive-month period within the 18 consecutive months ending immediately prior to the incurring of such additional Subordinated Obligations shall have amounted to at least 1.10 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed additional Subordinated Obligations; or (b) the estimated Net System Revenues for the five City Fiscal Years following the earlier of (I) the end of the period during which interest on those additional Subordinated Obligations is to be capitalized or, if no interest is to be capitalized, the City Fiscal Year in which the additional Subordinated Obligations are issued; or (II) the date on which substantially all new facilities financed with such additional Subordinated Obligations are expected to commence operations, will be at least equal to 1.10 times the Maximum Annual Debt Service on all Obligations to be Outstanding immediately after the issuance of the proposed additional Subordinated Obligations. For the purposes of the computations described in this paragraph, the amounts may be adjusted as described under the heading "– Incurrence of Additional Obligations – Under the Master Installment Purchase Agreement" above."

Further, the WIFIA Loan Agreements provide that, as a condition to the issuance of any additional Senior Obligations or additional Subordinated Obligations that constitute Variable Rate Indebtedness (other than Variable Rate Indebtedness that is commercial paper or the proceeds of which are applied to repay reimbursement obligations in respect of any letter of credit issued to support commercial paper Obligations), to the extent that such issuance would cause the principal amount of all Outstanding Variable Rate Indebtedness to exceed 25% of the principal amount of all Outstanding Senior Obligations and Subordinated Obligations, the City must enter into a Qualified Hedge with respect to such additional Obligations. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Hedges Under the WIFIA Loan Agreements."

**Rate Covenants**

***Master Installment Purchase Agreement***. The City has covenanted in the Master Installment Purchase Agreement to fix, prescribe, and collect rates and charges for the Water Service that will be at least sufficient to yield the greater of (i) Net System Revenues sufficient to pay during each Fiscal Year all Obligations (including the 2023 Installment Payments) payable in such Fiscal Year or (ii) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service (which does not include debt service on Subordinated Obligations) for such Fiscal Year. The City may make adjustments from time to time in such rates and charges and may make such classification thereof as it deems necessary, but the City will not reduce the rates and charges then in effect unless the Net System Revenues from such reduced rates and charges will at all times be sufficient to meet the requirements of the Master Installment Purchase Agreement. The term "Adjusted Net System Revenues" is defined in the Master Installment Purchase Agreement as, for any Fiscal Year, the Net System Revenues for such Fiscal Year, minus an amount equal to earnings from investments in any Reserve Fund securing Senior Obligations for such Fiscal Year. The term "Adjusted Debt Service" is defined in the Master Installment Purchase Agreement as, for any Fiscal Year, Debt Service on Senior Obligations for such Fiscal Year, minus an amount equal to earnings from investments in any Reserve Fund for Senior Obligations for such Fiscal Year (currently, no such Reserve Fund exists). Net System Revenues (and, therefore, Adjusted Net System Revenues) may be increased or reduced by transfers in to or out of the Rate Stabilization Fund Reserve or the Secondary Purchase Fund. See "WATER SYSTEM FINANCIAL OPERATIONS – Water Utility Fund Reserves."

***SRF Loans***. The City has agreed to various covenants in connection with its SRF Loans, including provisions whereby (i) the City covenants to ensure that net system revenues are equal to at least 120% of maximum annual debt service on all Senior Obligations in each Fiscal Year, where "maximum annual debt service" means the maximum amount of debt service due on Water System obligations in a Fiscal Year during the period commencing with the Fiscal Year for which such calculation is made and within the next five years in which debt service for any Water System obligations will become due ("120% MADS"); and (ii) the City covenants to ensure that net system revenues are equal to at least 110% of maximum annual debt service on all Obligations in each Fiscal Year, where "maximum annual debt service" means the maximum amount of debt service due on Water System obligations in a Fiscal Year during the period commencing with the Fiscal Year for which such calculation is made and terminating with the last Fiscal Year in which debt service for any Water System obligations will become due ("110% MADS"). The provisions included in the City's other SRF Loans are less restrictive than those described in this paragraph or set forth in the Master Installment Purchase Agreement. The City may enter into additional loans and agree to different rate covenants in connection therewith. The covenants in the agreements for the SRF Loans are not made for the benefit of the Owners of the 2023A Bonds and Owners of the 2023A Bonds do not have a right to enforce such covenants.

***WIFIA Loans***. In connection with the WIFIA Loans that are scheduled to be repaid in full in 2058, the City has covenanted to ensure (a) Net System Revenues are equal to at least 110% of the debt service with respect to all Outstanding Obligations (which includes the 2023 Installment Payments) for such Fiscal Year, and (b) Adjusted Net System Revenues are equal to at least 120% of the debt service with respect to all Outstanding Senior Obligations for such Fiscal Year. The City may enter into additional loans and agree to different rate covenants in connection therewith. The covenants in the agreements for the WIFIA Loan Agreements are not made for the benefit of the Owners of the 2023A Bonds and Owners of the 2023A Bonds do not have a right to enforce such covenants.

See "– Pledge of Net System Revenues; Payment of Installment Payments" above. For information on the possible limitation on the City's ability to comply with its rate covenants described above as a consequence of Proposition 218, see "RISK FACTORS – Rate-Setting Process Under Proposition 218" and "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIIC" and "– Article XIIID." For a description of the reserve funds established by the City within the Water Utility Fund, see "WATER SYSTEM FINANCIAL OPERATIONS – Water Utility Fund Reserves – Rate Stabilization Fund Reserve."

**The Collateral Agency Agreement**

Pursuant to the Collateral Agency Agreement, the Collateral Agent shall serve as agent of the Trustee and the Owners of Secured Obligations for purposes of receiving payments of Net System Revenues from the City and making payments on Obligations from Net System Revenues. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2023A BONDS - Pledge of Net System Revenues; Payment of Installment Payments." In addition, as provided in the Collateral Agency Agreement, the Collateral Agent shall have the right to exercise all of the rights and remedies described in the Collateral Agency Agreement, on behalf of and for the benefit of Owners of Secured Obligations and any trustee on their behalf, including the Trustee, under the First Amendment thereto, the Indenture and any other Issuing Instrument. Under the Master Installment Purchase Agreement and the Collateral Agency Agreement, the Collateral Agent (rather than the Corporation) shall have all rights, pursuant to the Master Installment Purchase Agreement, the Collateral Agency Agreement or any other Issuing Instrument, (a) as a grantee of a pledge of Net System Revenues, (b) to accelerate or otherwise declare any Obligations immediately due and payable, (c) to exercise any remedies by or on behalf of the Owners of any Obligations or otherwise with respect to the Net System Revenues following an event of default under the Master Installment Purchase Agreement, or (d) to receive and/or apply any Net System Revenues to the payment of any Obligations following an event of default under the Master Installment Purchase Agreement. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Collateral Agency, Account and Assignment Agreement."

**Payment of Bonds Under the Indenture**

***Senior Bonds***. Pursuant to the Indenture, on or before each February 1 and August 1, and such other date as provided for in a Supplemental Indenture (each an "Interest Payment Date"), the Trustee shall transfer from the Senior Bonds Payment Fund and deposit in the Senior Bonds Interest Account that amount of money that, together with any money contained in the Senior Bonds Interest Account, equals the aggregate amount of interest becoming due and payable on all Outstanding Senior Bonds on such Interest Payment Date. No deposit need be made in the Senior Bonds Interest Account if the amount contained in the Senior Bonds Interest Account equals at least the aggregate amount of interest becoming due and payable on all Outstanding Senior Bonds on such Interest Payment Date. All money in the Senior Bonds Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Senior Bonds as it shall become due and payable (including accrued interest on any Senior Bonds redeemed prior to maturity).

On or before each Principal Payment Date, the Trustee shall transfer from the Senior Bonds Payment Fund and deposit in the Senior Bonds Principal Account that amount of money that, together with any money contained in the Senior Bonds Principal Account, equals the aggregate principal becoming due and payable on all Outstanding Senior Bonds. No deposit need be made in the Senior Bonds Principal Account if the amount contained therein is at least equal to the aggregate amount of principal becoming due and payable on Outstanding Senior Bonds. All money in the Senior Bonds Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Senior Bonds as it shall become due and payable. Within the Senior Bonds Payment Fund, there is established a special account designated the "Senior Bonds Redemption Account." All money in the Senior Bonds Redemption Account shall be held in trust by the Trustee and shall be applied, used, and withdrawn to redeem Senior Bonds.

Any delinquent Installment Payments pledged to the Senior Bonds shall be applied first to the Senior Bonds Interest Account for the immediate payment of interest payments past due and to the Senior Bonds Principal Account for immediate payment of principal payments past due on any Senior Bond. Any remaining money representing delinquent Installment Payments pledged to Senior Bonds shall be deposited in the Senior Bonds Payment Fund to be applied in the manner provided therein. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

***Subordinated Bonds***. Pursuant to the Indenture, except to the extent that payment is made of interest on the Commercial Paper Notes from the proceeds of Commercial Paper Notes or the proceeds of a Draw under the related Subordinated Credit Support Instrument, on or before each Interest Payment Date, the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the Subordinated Bonds Interest Account that amount of money that, together with any money contained in the Subordinated Bonds Interest Account, equals the aggregate amount of interest becoming due and payable on all Outstanding Subordinated Bonds on such Interest Payment Date. No deposit need be made in the Subordinated Bonds Interest Account if the amount contained in the Subordinated Bonds Interest Account equals at least the aggregate amount of interest becoming due and payable on all Outstanding Subordinated Bonds on such Interest Payment Date; provided that the Authority may direct the Trustee to maintain amounts in the Subordinated Bonds Interest Account following payment of all amounts required to be paid under the Indenture to be used for payments on Commercial Paper Notes on future Interest Payment Dates, and in such instance, such additional amount shall not be included as amounts available to pay interest becoming due and payable on Outstanding Subordinated Bonds. All money in the Subordinated Bonds Interest Account shall be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Subordinated Bonds as it shall become due and payable (including accrued interest on any Subordinated Bonds redeemed prior to maturity).

Except to the extent that payment is made of the principal of the Commercial Paper Notes from the proceeds of Commercial Paper Notes or the proceeds of a Draw under the related Subordinated Credit Support Instrument, on or before each "Principal Payment Date" (being each August 1, each date on which Commercial Paper Notes are due and payable, and such other date as provided for in a Supplemental Indenture), the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the Subordinated Bonds Principal Account that amount of money that, together with any money contained in the Subordinated Bonds Principal Account, equals the aggregate principal becoming due and payable on all Outstanding Subordinated Bonds. No deposit need be made in the Subordinated Bonds Principal Account if the amount contained therein is at least equal to the aggregate amount of principal becoming due and payable on Outstanding Subordinated Bonds. All money in the Subordinated Bonds Principal Account shall be used and withdrawn by the Trustee solely for the purpose of paying the principal of the Subordinated Bonds as it shall become due and payable.

In addition to the above accounts, the Trustee shall establish and maintain within the Subordinated Bonds Payment Fund a special account designated the "Subordinated Bonds Redemption Account." All money in the Subordinated Bonds Redemption Account shall be held in trust by the Trustee and shall be applied, used, and withdrawn to redeem Subordinated Bonds.

Any delinquent Installment Payments pledged to the Subordinated Bonds shall be applied first to the Subordinated Bonds Interest Account for the immediate payment of interest payments past due and to the Subordinated Bonds Principal Account for immediate payment of principal payments past due on any Subordinated Bond. Any remaining money representing delinquent Subordinated Installment Payments pledged to Subordinated Bonds shall be deposited in the Subordinated Bonds Payment Fund to be applied in the manner provided therein.

On or before each date that any Commercial Paper Note matures, the Trustee shall transfer from the Subordinated Bonds Payment Fund or from the Subordinated Bonds Interest Account, as applicable, to the Issuing and Paying Agent for deposit in the applicable Reimbursement Account that amount of money that equals the aggregate amount of interest or principal becoming due and payable on the Commercial Paper Notes to the extent that payment of such interest on or principal of the Commercial Paper Notes is not made from the proceeds of Commercial Paper Notes but is made from the proceeds of a Draw under the related Subordinated Credit Support Instrument. On or before each date any related Subordinated Credit Provider Reimbursement Obligations become due and payable, the Trustee shall transfer from the Subordinated Bonds Payment Fund and deposit in the applicable Reimbursement Account that amount of money that, together with any amounts transferred pursuant to the preceding sentence, equals the amount of any such Subordinated Credit Provider Reimbursement Obligations when due. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture."

**Issuance of Additional Bonds Under the Indenture**

Pursuant to the Indenture, the Trustee must, upon Written Request of the Authority, by a supplement to the Indenture, establish one or more other series of Bonds secured by the pledge made under the Indenture equally and ratably with any Senior Bonds previously issued and delivered (if such Bonds are to be Senior Bonds) or equally and ratably with any Subordinated Bonds (if such Bonds are to be Subordinated Bonds), in such principal amount as shall be determined by the Authority, but only upon compliance with the provisions of the Indenture, the requirements of the Agreement applicable to the incurrence of Senior Obligations (if such Bonds are to be Senior Bonds) or Subordinated Obligations (if such Bonds are Subordinated Bonds) and any additional requirements set forth in the applicable Supplemental Indenture, which are conditions precedent to the execution and delivery of Additional Bonds (as defined in the Indenture):

(1) No Event of Default will have occurred and be then continuing;

(2) The Supplemental Indenture providing for the execution and delivery of such Additional Bonds must specify the purposes for which such Additional Bonds are then proposed to be delivered, which will be one or more of the following: (i) to provide moneys needed to provide for Project Costs by depositing into the Acquisition Fund the proceeds of such Additional Bonds to be so applied; (ii) to provide for the payment or

redemption of Bonds then Outstanding under the Indenture, by depositing with the Trustee moneys and/or investments required for such purpose under the defeasance provisions set forth in the Indenture; or (iii) to provide moneys needed to refund or refinance all or part of any other current or future obligations of the City with respect to the funding of the Water System. Such Supplemental Indenture may, but is not required to, provide for the payment of expenses incidental to such purposes, including the Costs of Issuance of such Additional Bonds, capitalized interest with respect thereto for any period authorized under the Code (in the case of Tax-Exempt Bonds) and, in the case of any Additional Bonds intended to provide for the payment or redemption of existing Bonds, or other Obligations of the City, expenses incident to calling, redeeming, paying or otherwise discharging the Obligations to be paid with the proceeds of the Additional Bonds.

(3) The Supplemental Indenture providing for the execution and delivery of such Additional Bonds must state whether such Additional Bonds shall be Senior Bonds or Subordinated Bonds.

(4) If such Additional Bonds are Subordinated Bonds, the Supplemental Indenture must specify whether such Additional Bonds will be secured by the Common Subordinated Bonds Reserve Fund, a Separate Subordinated Bonds Reserve Bonds or no reserve fund.

(5) The Additional Bonds must be payable as to principal and interest on such dates as will be provided for in the Supplemental Indenture, except that the first interest payment due with respect thereto may be for a period of not longer than twelve (12) months.

(6) If such Additional Bonds are Senior Bonds, the Authority must deliver or cause to be delivered to the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount (or a Surety Bond in an amount) sufficient to increase the balance in the Reserve Fund to the Reserve Fund Requirement.

(7) If such Additional Bonds are Common Subordinated Reserve Fund Bonds, the Authority must deliver or cause to be delivered by the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount sufficient to increase the balance of the Common Subordinated Bonds Reserve Fund to the Common Subordinated Bonds Reserve Fund Requirement.

(8) If such Additional Bonds are Subordinated Bonds to be secured by a Separate Subordinated Bonds Reserve Fund, the Authority must deliver or cause to be delivered by the Trustee, from the proceeds of such Additional Bonds or from any other lawfully available source of moneys, an amount (or a Surety Bond in an amount) sufficient to increase the balance in such Separate Subordinated Bonds Reserve Fund to the Separate Subordinated Bonds Reserve Fund for such Series of Subordinated Bonds.

(9) The Additional Bonds must be payable as to principal on August 1 and as to interest on February 1 and August 1 of each year during their term, except that the first interest payment due with respect thereto may be for a period of not longer than twelve (12) months. Fixed serial maturities or mandatory sinking account payments, or any combination thereof, shall be established in amounts sufficient to provide for the retirement of all of the Additional Bonds of such Series on or before their respective maturity dates.

(10) The aggregate principal amount of Bonds and Additional Bonds executed and delivered under the Indenture may not exceed any limitation imposed by law or by any Supplemental Indenture.

(11) The Trustee must be the Trustee for the Additional Bonds.

Nothing in the Indenture will limit in any way the power and authority of the Authority to incur other obligations payable from other lawful sources.

The term "Additional Senior Bonds" means those Bonds authorized and issued pursuant to the Indenture and payable on parity with other Bonds having a first priority lien on Net System Revenues, including the 2020 Bonds and the 2023A Bonds. The term "Additional Subordinated Bonds" means those Bonds authorized and issued pursuant to the Indenture on parity with the 2016 Subordinated Bonds and 2018A Subordinated Bonds. See "APPENDIX A – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture – Additional Bonds – Execution and Delivery of Additional Bonds."

**No Debt Service Reserve Fund for the 2023A Bonds**

No debt service reserve fund will be created or funded to secure the 2023A Bonds. Debt service reserve funds were created in connection with the issuance of certain of the Authority's Bonds and the incurrence of certain of the City's Obligations, and amounts on deposit in, or to be on deposit in, such debt service reserve funds are not available to secure the 2023A Bonds.

## DEBT SERVICE SCHEDULE

The following table sets forth the amounts required in each Fiscal Year for the payment of principal of and interest on Outstanding Senior Obligations and Subordinated Obligations, including the expected issuance of the 2023A Bonds, secured by Net System Revenues. A portion of the proceeds of the 2023A Bonds will be used to pay in full the principal of all Outstanding Commercial Paper Notes.

## TABLE 1
## DEBT SERVICE ON ALL OUTSTANDING OBLIGATIONS[1]

| Fiscal Year | Senior Obligations Debt Service[2] | Senior 2023A Bonds Principal | Senior 2023A Bonds Interest | Senior 2023A Bonds Total Principal and Interest | Total Debt Service on Senior Obligations | Subordinated Obligations Debt Service[3] | Total Debt Service |
|---|---|---|---|---|---|---|---|
| 2024 | $ 28,521,378 | | | | | $ 62,603,268 | $ 91,124,647 |
| 2025 | 28,520,153 | | | | | 63,615,847 | 92,136,000 |
| 2026 | 28,526,666 | | | | | 65,060,847 | 93,587,513 |
| 2027 | 28,519,056 | | | | | 64,434,972 | 92,954,027 |
| 2028 | 28,528,064 | | | | | 64,425,297 | 92,953,361 |
| 2029 | 28,524,823 | | | | | 64,392,122 | 92,916,945 |
| 2030 | 28,524,281 | | | | | 56,992,472 | 85,516,753 |
| 2031 | 28,525,261 | | | | | 56,807,597 | 85,332,858 |
| 2032 | 27,517,594 | | | | | 56,618,722 | 84,136,315 |
| 2033 | 25,373,652 | | | | | 50,457,172 | 75,830,824 |
| 2034 | 15,431,169 | | | | | 49,581,673 | 65,012,842 |
| 2035 | 15,432,044 | | | | | 49,754,510 | 65,186,553 |
| 2036 | 15,435,669 | | | | | 49,933,789 | 65,369,457 |
| 2037 | 14,582,038 | | | | | 50,981,499 | 65,563,538 |
| 2038 | 14,579,538 | | | | | 52,807,669 | 67,387,207 |
| 2039 | 14,579,538 | | | | | 53,060,990 | 67,640,528 |
| 2040 | 13,023,183 | | | | | 53,355,291 | 66,378,474 |
| 2041 | 13,021,483 | | | | | 21,178,096 | 34,199,579 |
| 2042 | 13,020,683 | | | | | 18,636,250 | 31,656,933 |
| 2043 | 13,020,183 | | | | | 18,639,300 | 31,659,483 |
| 2044 | 13,024,283 | | | | | 18,633,675 | 31,657,958 |
| 2045 | 13,022,383 | | | | | 18,638,500 | 31,660,883 |
| 2046 | 13,023,883 | | | | | 18,635,006 | 31,658,890 |
| 2047 | 13,020,183 | | | | | 16,023,419 | 29,043,602 |
| 2048 | 13,024,608 | | | | | 16,019,763 | 29,044,371 |
| 2049 | 13,023,608 | | | | | -- | 13,023,608 |
| 2050 | 13,021,958 | | | | | -- | 13,021,958 |
| 2051 | -- | | | | | -- | -- |
| 2052 | -- | | | | | -- | -- |
| **Total[4]:** | $514,367,367 | | | | | $1,111,287,742 | $1,625,655,109 |

(1) Includes current debt service on Outstanding Obligations, except for debt service on the Outstanding Commercial Paper Notes. Does not include any future indebtedness under the Master Installment Purchase Agreement, the undrawn amounts under the WIFIA Loans or any additional SRF Loans. See "WATER SYSTEM FINANCIAL OPERATIONS – Outstanding Indebtedness" and "WATER SYSTEM FINANCIAL OPERATIONS – Anticipated Additional Obligations." In addition, the schedule of debt service assumes that there is no redemption or prepayment of obligations prior to their scheduled maturity.

(2) Debt service on the SRF Loans and 2020 Bonds.

(3) Debt service on the 2016A Subordinated Bonds, the 2016B Subordinated Bonds, and the 2018A Subordinated Bonds. Excludes principal of and interest on the Commercial Paper Notes; a portion of the proceeds of the 2023A Bonds will be used to pay all or a portion of the Outstanding principal of the Commercial Paper Notes. Includes the $145,218,742 (consisting of $145,218,742 withdrawn under the 2020 WIFIA Loan and $0 withdrawn under the 2021 WIFIA Loan) that has been drawn under the WIFIA Loans as of March 1, 2023; it does not include the $588,281,258 that remains to be drawn under the WIFIA Loans.

(4) Amounts have been rounded; total may not equal the sum of the components.

Source: Department of Finance, City of San Diego.

# WATER SYSTEM ORGANIZATION AND MANAGEMENT

## Governance and Management of Water System

***General***. The Water System is owned by the City and operated by the City through the Department. The Department is comprised of several branches that are funded by both the Water Utility Fund and the Sewer Revenue Fund, depending upon which system benefits from the tasks completed. Though the different branches cover all tasks required by the Department, separate accounting is kept for each fund. The Department ultimately reports to the Mayor, who has operational authority over the Department and appoints managers and directors who are charged with the operations of the Department. The City Council of the City (the "City Council") has the authority to approve the Department's budget, to set rates and charges of the City utilities, including the Water System, and to approve execution of certain contracts. For information on how the City sets the rates and charges of the Water System see "WATER SYSTEM FINANCIAL OPERATIONS – Establishment of Water Service Charges." In accordance with the provisions of the City Charter, the Water System funds are separate from the City's General Fund.

***Officers***. The Senior Executive officers managing the Department and their respective biographies are as follows:

*Kris McFadden*. Mr. McFadden serves as a Deputy Chief Operating Officer and as of March 2023 oversees the following departments: Public Utilities, Transportation, and Stormwater. Prior to March he oversaw Development Services, Engineering & Capital Projects, Environmental Services, Planning, Special Capital Projects, Sustainability & Mobility, and Transportation since June of 2022. Mr. McFadden joined the City of San Diego in April 2008 as Deputy Director in the Storm Water Department and was promoted to oversee the Transportation & Storm Water Department in 2014. He has worked for the City of San Diego for over 14 years and has over 25 years of government experience. Before joining the City, Mr. McFadden worked for the City of Fort Lauderdale where he was responsible for all environmental regulations related to Storm Water, Water, and Wastewater. Before this time, Mr. McFadden worked for the State of Florida as an Environmental Specialist, where he focused on water quality and 401 Certification programs. Mr. McFadden has a Bachelor's Degree in Biology from Allegheny College, a Master's Degree in Biology from Florida Atlantic University, and a Master's Degree in Marine Affairs & Policy from the University of Miami.

*Juan Guerreiro*. Mr. Guerreiro serves as the Director for the Department. Mr. Guerreiro was previously the Executive Assistant Director for the Department overseeing the day-to-day operations of the Department. He started with the City in 2016 as an Assistant Deputy Director for the Wastewater Treatment & Disposal Division, and since then has served as Deputy Director and Assistant Director within the Department. He has over 17 years of experience throughout the San Diego region in water and wastewater operations, management, and training. Mr. Guerreiro has a Bachelor of Arts degree from San Diego State University in Public Administration, and a Master of Science degree from the University of Oxford in Water Science, Policy and Management.

*Lisa Celaya*. Ms. Celaya serves as the Executive Assistant Director for the Department overseeing day-to-day operations and directly oversees Customer Support Division. Over the last three years, Lisa has served as an Assistant Director in the Department for the Business Support Branch and most recently for the Water Delivery Branch. In addition to over 14 years of experience with the City in finance and analytical roles, Ms. Celaya spent nearly seven years with the San Diego County Water Authority as the Financial Resources Manager. She earned a Bachelor of

Science in Business Administration from San Diego State University and a Master of Public Administration from National University.

*Tom Rosales*. Mr. Rosales serves as the Assistant Director of the Water Recovery Branch which includes the Wastewater Collection Division, the Wastewater Treatment & Disposal Division, and the Pure Water Divisions. These divisions are responsible for the operation and maintenance of the Municipal Collection System, operation of the Wastewater Treatment Plants, and the Pure Water Program which will provide clean recycled water for safe drinking for years to come. Mr. Rosales's responsibilities include determining the quality of the City's source water, drinking water, recycled water, wastewater, and marine environment. Mr. Rosales is also responsible for the planning, engineering, and capital program management to ensure new facilities and upgrades for municipal potable water, raw water, reclaimed water, and regional wastewater systems are implemented to meet regulatory standards. Mr. Rosales has over 30 years of experience in the wastewater treatment industry including 10 years as the General Manager of the South Orange County Wastewater Authority and the City of Klamath Falls, Oregon, before joining the City. He earned his Bachelor of Arts in Economics from California State University Long Beach and a Master of Science in Environmental Studies from California State University Fullerton.

*Amy Dorman*. Ms. Dorman serves as the Assistant Director of Pure Water. Ms. Dorman is responsible for the Pure Water Program, which is designed to produce 30 million gallons per day of high-quality purified water and reducing the City's dependence on imported water. Ms. Dorman earned her Bachelor of Science in Mechanical Engineering from the University of California, Berkeley, and a Master of Business Administration from San Diego State University and is a professional engineer in the State of California.

*David Dalager.* Mr. Dalager is serving as the Interim Assistant Director of the Business Support Branch. In this capacity he oversees the day-to-day operations of all Business Support activities which include Employee Services & Quality Assurance (ESQA), Finance, and Innovation Technology. Mr. Dalager's responsibilities include human resources management, rate analysis and setting, debt financing, and ensuring efficient and innovative technology services for the Department. He earned his Bachelor of Arts in Economics from the University of California, San Diego.

*Drew Kleis*. Mr. Kleis serves as the Assistant Director of the Water Delivery Branch, which includes the Water Distribution, Water Production and Water Meter Services Divisions. The Water Distribution Division is responsible for the operation and maintenance of the water distribution system, and the management, administration, planning and technical support associated with the maintenance and construction activities for the water distribution system, backflow preventers, fire hydrants, and isolation valves. It also provides Capital Improvement Program support for the City's replacement of aging water distribution pipelines. The Water Production Division is responsible for the management, administration, planning and technical support associated with the operations and maintenance of the nine reservoirs and three water treatment plants. The Water Meter Services Division is responsible for metered service connections including meter reading, and maintenance, inspection and enforcement of backflow and cross connection controls. Prior to his current role, Mr. Kleis served as the Deputy Director of the City's Storm Water Department and has 21 years of experience in storm water planning and management. He earned his Bachelor of Arts in Environmental Studies from the University of California, Santa Barbara and a Master of City & Regional Planning from California Polytechnic State University, San Luis Obispo.

***Oversight***. The Independent Rates Oversight Committee ("IROC") was established by City ordinance to oversee and advise on various aspects of the Water System and the Wastewater System. There are 11 members on IROC, appointed by the Mayor and confirmed by the City Council, and two ex-officio members, one representing and appointed by the Metropolitan Wastewater Joint Powers Authority, and one representing and appointed by the ten-member City representatives to the CWA. IROC serves as an official advisory body to the Mayor and the City Council on policy issues relating to the oversight of Department operations; their recommendations are taken into consideration but are not binding on the Department.

## WATER SYSTEM SERVICE AREA, CUSTOMERS AND FACILITIES

### Water System Service Area

The Water System serves the City and the cities of Del Mar, Coronado and Imperial Beach, providing water to retail, wholesale, and recycled water customers. The Water System's service area covers 404 square miles, including 325 square miles of the City, and a population of approximately 1.4 million people as of January 1, 2022. The map that follows the Table of Contents of this Official Statement shows the boundaries of the service area of the Water System.

The following table sets forth the volume of water deliveries made by the Department to its retail and wholesale customers for Fiscal Years 2018 through 2022. Potable water includes local water and purchased water. See "WATER SUPPLY."

**TABLE 2**
**WATER DELIVERIES**
**Fiscal Years 2018 through 2022**
**(In Acre Feet ("AF"))**

| Delivery Type | 2018 | 2019(1) | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Potable Water | 186,039 | 173,307 | 169,625 | 178,115 | 181,050 |
| Recycled / Untreated Water | 12,066 | 10,693 | 9,200 | 12,306 | 10,491 |
| **Total Water Deliveries** | 198,105 | 184,000 | 178,825 | 190,421 | 191,541 |

(1) Water deliveries declined in 2019 due to an extended rainy season and conservation efforts.
Source: Public Utilities Department, City of San Diego.

***Retail Customer Base***. The City has five types of potable retail customer groups, consisting of Single Family Residential ("SFR"), Multi-Family Residential ("MFR"), Non-Residential, Irrigation, and Temporary Construction. For Fiscal Year 2022, retail customers accounted for approximately 93% of total water deliveries and represented approximately 96% of the revenues from total water sales with the balance being provided to wholesale customers. Of the Water System's roughly 283,000 retail service connections, approximately 91% are SFR and MFR accounts, which comprised approximately 59% of total water sales revenue in Fiscal Year 2022.

*Single Family Residential*. SFR refers to individual dwelling units served by a separate meter, and accounted for approximately 39% of total water sales revenues in Fiscal Year 2022.

*Multi-Family Residential*. MFR encompasses multi-family dwellings such as apartment or condominium complexes, in which two or more dwelling units share a meter, and accounted for approximately 20% of total water sales revenues in Fiscal Year 2022.

*Non-Residential*. Non-Residential users are comprised of a diverse group of customers and accounted for 22% of total water sales revenues in Fiscal Year 2022. These customers are treated equivalently in cost calculations and are assigned the same peaking factors. These customers also typically have lower peaking factors than residential customers due to their relatively consistent usage trend.

*Irrigation*. Irrigation customers consist of SFR, MFR, and Non-Residential accounts that are used solely for irrigation. These customers use water primarily to irrigate personal or business landscaping. This diverse group of customers accounted for 12% of total water sales revenue for Fiscal Year 2022.

*Temporary Construction*. Temporary construction refers to meters that are placed on fire hydrants during construction to provide water to the construction site until the installation of a permanent meter. Costs for these customers are usually higher than the average customer because of additional administrative costs associated with transient meters. This group of customers generated approximately 0.5% of total water sales revenue for Fiscal Year 2022.

Irrigation and Temporary Construction customers typically have high peak demands characterized by relatively large amounts of water used in short periods of time when compared to average usage. Peak usage is more costly to deliver than constant usage.

The following table sets forth the historical number of retail metered connections to the Water System for each year from Fiscal Years 2018 through 2022.

**TABLE 3**
**HISTORICAL NUMBER OF RETAIL METERED CONNECTIONS TO WATER SYSTEM**
**Fiscal Years 2018 through 2022**

| Customer Type | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Single Family Residential | 225,158 | 225,597 | 225,878 | 226,115 | 226,106 |
| Multi-Family Residential | 30,406 | 30,458 | 30,601 | 30,631 | 30,752 |
| Non-Residential [1] | 17,091 | 17,134 | 17,196 | 17,233 | 17,198 |
| Irrigation | 7,816 | 7,838 | 7,886 | 7,912 | 7,927 |
| Recycled Water | 718 | 748 | 766 | 783 | 779 |
| Temporary Construction | 552 | 531 | 498 | 500 | 528 |
| **Total** | 281,741 | 282,306 | 282,825 | 283,174 | 283,290 |
| Percent Growth | | 0.20% | 0.18% | 0.12% | 0.04% |

(1) "Non-Residential" consists of customers previously categorized as Commercial, Industrial or Outside City.
Source: Public Utilities Department, City of San Diego.

The following table sets forth the 10 major retail customers of the Water System for Fiscal Year 2022. These customers provided approximately 11.5% of the total sales revenues for such Fiscal Year.

**TABLE 4**
**MAJOR RETAIL CUSTOMERS**
**Fiscal Year 2022**

| Customers | Millions of Cubic Feet | Billings | % of Total Sales Revenues |
|---|---|---|---|
| City of San Diego | 426.97 | $27,723,336 | 5.01% |
| United States Navy | 162.38 | 10,440,921 | 1.89 |
| San Diego Family Housing LLC | 79.06 | 5,994,683 | 1.08 |
| San Diego Unified School District | 45.45 | 3,798,134 | 0.69 |
| University of California San Diego | 56.32 | 3,759,041 | 0.68 |
| The Irvine Company | 41.74 | 3,039,886 | 0.55 |
| CP Kelco | 47.25 | 2,984,040 | 0.54 |
| San Diego Zoo | 32.54 | 2,070,156 | 0.37 |
| California Department of Transportation | 32.13 | 1,933,388 | 0.35 |
| San Diego State University | 25.57 | 1,709,093 | 0.31 |
| **Total Major Retail Customers[(1)]** | **949.41** | **$63,452,678** | **11.47%** |

(1) Figures may not add to total due to independent rounding.
Source: Public Utilities Department, City of San Diego.

***Wholesale Treated Water Customer Base***. The City currently sells and delivers potable water on a wholesale basis to the California-American Water Company ("Cal-American") and the Otay Water District (the "OWD"). The City also treats and delivers potable water to the City of Del Mar ("Del Mar"). Del Mar initially purchases untreated water directly from CWA, which water is delivered for the benefit of Del Mar to the City's Miramar Water Treatment Plant. Del Mar then pays its apportioned expenses to the Department for treating and pumping the water to Del Mar's connection. As a result, deliveries to Del Mar are included in the total deliveries of potable water by the City, but are not considered to be a component of total water sales. Deliveries to Del Mar totaled 1,007.62 AF in Fiscal Year 2022. For Fiscal Year 2022, wholesale treated water customers accounted for approximately 5.6% of total water deliveries and represented approximately 3.8% of the revenues from total water sales.

***Recycled Water Customer Base***. Recycled water (also referred to as reclaimed water) is produced from wastewater processed at water reclamation plants owned and operated by the City as part of the City's Wastewater System. The City has three recycled wholesale customers, OWD, the Olivenhain Municipal Water District and the City of Poway. The City has 784 (779 retail and 5 wholesale) metered Recycled Water System connections. For Fiscal Year 2022, retail and wholesale recycled water customers accounted for approximately 3.0% of the revenues from total sales of water.

**Water System Facilities**

***Existing Water System Facilities***. In order to serve its 404 square mile service area, the Water System maintains nine raw water storage reservoirs, three water treatment plants, 29 treated water storage facilities, and approximately 3,300 miles of water transmission and distribution lines. Water is transported from the treatment plants through the transmission and distribution system to supply approximately 283,000 metered service connections. The Water System consists of approximately 130 different pressure zones, which may be gravity supplied, pressure reduced (via 384 pressure regulating stations), or pressure boosted (via 49 water-pumping stations).

***Raw Water Reservoirs.*** The City has nine reservoirs with a total capacity of 569,021 AF, of which, the City has rights to 373,260 AF of total storage (with 192,979 AF of capacity belonging to CWA and other local water agencies). As of December 31, 2022, the City had 131,528 AF of water in storage, or 35% of total City storage capacity. The following table outlines each of the nine reservoirs' total capacity, City owned capacity, and current City storage. See "Reservoir Storage Rights" immediately following this table. The City is cooperating with CWA on the Emergency Storage Project, pursuant to which a system of reservoirs, interconnected pipelines and pumping stations is being created to improve the availability of water to the San Diego region in the event of an interruption in imported water deliveries. Currently, the pipelines that carry imported water for CWA, a portion of which is purchased by the Department, extend for hundreds of miles and cross several major fault lines along the region. A severe earthquake, drought or other significant disaster could cut off the City's imported water supply for up to six months. See "REGULATORY RISKS – Dam Licensing and Safety Issues."

Although the City's reservoirs have historically supplied a maximum of 15% of any given year's water demands, they provide the City certain flexibility in determining how much imported water to purchase in any given year. The City generally maintains a minimum amount of water storage in its nine reservoirs such that it could meet the water supply needs of the Water System for approximately six months in case of emergency, such as the shut-off of imported water sources. This minimum amount is replenished as necessary with imported water. While the City's largest reservoirs largely hold imported water, the City also uses its reservoirs to hold local rainwater, with the most recent storms in January 2023 resulting in an additional 14,000 AF of water flowing into the City's reservoirs.

**TABLE 5**
**RAW WATER RESERVOIRS**
**(As of December 31, 2022)**
**(In AF)**

| Reservoir | Total Storage Capacity (A) | City Storage Capacity (B) | Current City Storage Level (C) | Current City Percent Full (C/B) |
|---|---|---|---|---|
| Barrett | 34,806 | 34,806 | 12,571 | 36% |
| El Capitan[(1)(2)] | 112,807 | 102,807 | 24,341 | 24% |
| Lake Hodges[(1)(2)] | 30,633 | 5,317 | 272 | 5% |
| Lake Murray | 4,684 | 4,684 | 3,993 | 85% |
| Lower Otay[(3)] | 49,849 | 47,067 | 33,850 | 72% |
| Miramar | 6,682 | 6,682 | 5,282 | 79% |
| Morena[(2)] | 50,694 | 50,694 | 3,458 | 7% |
| San Vicente[(1)] | 249,358 | 91,695 | 44,888 | 49% |
| Sutherland | 29,508 | 29,508 | 2,873 | 10% |
| **Total** | **569,021[(4)]** | **373,260** | **131,528** | **35%** |

(1) The El Capitan, Lake Hodges, and San Vicente reservoirs have shared storage rights with other Agencies and Water Districts.

(2) The California Department of Water Resources' Division of Safety of Dams has placed restrictions on the total water storage levels of El Capitan (50,733 AF since May 2015), Lake Hodges (5,996 AF since February 2023) and Morena (16,742 AF since November 2021). The restrictions on El Capitan and Lake Hodges reservoirs are shared proportionally with other users that maintain storage rights with respect to these reservoirs. As the reservoir water level reaches the restriction level, the City releases water from the reservoirs downstream, with a portion going to the City's treatment and delivery system. For information regarding Hodges Dam, see "WATER SYSTEM CAPITAL

IMPROVEMENT PROGRAM – Description of Major Projects – Water Storage Facilities" and "REGULATORY RISKS – Dam Licensing and Safety Issues."

(3) Lower Otay Reservoir has operational flood gates at the 47,067 AF spillway level that could be closed to capture an additional 2,782 AF in an auxiliary spillway basin if decided upon for operational purposes.

(4) Figure includes approximately 2% - 5% of total amount of water in storage that is inaccessible due to reservoir outlets being abandoned, blind flagged, or silted.

Source: Public Utilities Department, City of San Diego.

City policy mandates that the Department store sufficient water in active, available storage to meet six-tenths of the normal annual (7.2 months) City water demand requirements (exclusive of conservation efforts). This policy is expected to be updated to six months in Fiscal Year 2023 to coincide with the regional policies adopted by the CWA. This stored water is to be used during emergencies, in the event of substantial disruption or interruption of imported water service. The City has maintained, and continues to maintain, amounts at or above the requirement.

***Reservoir Storage Rights***. The City has executed agreements with various water districts and CWA to provide for storage capacity rights at the El Capitan Reservoir, Lake Hodges Reservoir, and the San Vicente Reservoir. Helix Water District has storage capacity rights of up to 10,000 AF of water in El Capitan Reservoir. CWA has storage capacity rights of up to 20,000 AF in Lake Hodges Reservoir and nearly 158,000 AF in San Vicente Reservoir due to CWA's Emergency Storage Project ("ESP"); CWA fully funded and built various facilities and infrastructure in order to raise the height of the City's San Vicente Dam and increase the reservoir's storage capacity. In addition, the Santa Fe Irrigation District and the San Dieguito Water District ("SFSD Districts") have combined total storage capacity rights of approximately 5,300 AF in Lake Hodges Reservoir. See "REGULATORY RISKS – Dam Licensing and Safety Issues."

***Water Treatment Plants***. The Department maintains and operates three water treatment plants, Alvarado Water Treatment Plant ("Alvarado"), Miramar Water Treatment Plant ("Miramar") and Otay Water Treatment Plant ("OWTP"), with a combined rated capacity of 378 million gallons per day ("mgd") through which potable water is supplied. Supplemental treated supplies from CWA are used to help operate the distribution system reliably and efficiently. Of the total of approximately 170,800 AF of water purchased from CWA during Fiscal Year 2022, approximately 10,500 AF was treated water.

The following table summarizes the capacity and demands of the three Water Treatment Plants.

**TABLE 6**
**CAPACITY AND DEMAND OF WATER SYSTEM WATER TREATMENT PLANTS**
**(In mgd)**
**As of June 30, 2022**

| Water Treatment Plant | Current Rated Capacity | Future Rated Capacity[1] | Current Average Demand[2] | Current Peak/Max Demand[2] |
|---|---|---|---|---|
| Alvarado | 200 | 200 | 69.73 | 96.40 |
| Miramar | 144 | 215 | 65.20 | 97.91 |
| OWTP | 34 | 34 | 17.18 | 29.45 |
| **Total** | **378** | **449** | **152.11** | **223.76[3]** |

(1) Miramar requires additional improvements, and/or further studies, followed by approval by the State Water Resources Control Board to reach its Future Rated Capacity. Improvements include the $38 million Miramar Clearwell project recently completed in Fiscal Year 2022.

(2) Current Demand data calculated for Fiscal Year 2022.

(3) Total is not intended to reflect the aggregate peak/maximum demand supported by all water treatment plants, because such plants do not all reach the peak/maximum demand simultaneously.

Source: Public Utilities Department, City of San Diego.

***Treated Water Storage Facilities***. The Department maintains and operates 29 treated water storage facilities, including steel tanks, standpipes, concrete tanks, and rectangular concrete reservoirs. These water storage facilities are used to regulate system pressure, provide peaking and emergency supply, and provide level control of pump stations. Capacities vary for these facilities from less than 0.5 million gallons to 35 million gallons and in the aggregate hold a daily total of approximately 280 million gallons, which represents 1.2 to 2.2 days depending on daily demand.

***Delivery System***. The Water System consists of approximately 3,300 miles of transmission and distribution pipelines, including transmission lines up to 84 inches in diameter and distribution lines as small as four inches in diameter. Transmission lines are pipelines with larger diameters that convey raw water to the water treatment plants and convey treated water from the water treatment plants to the treated water storage facilities. Distribution lines are pipelines with smaller diameters that directly service the retail users connected to a meter. The Department also maintains and operates 49 water pump stations that deliver treated water from the water treatment plants to over 283,000 metered service connections in approximately 130 different pressure zones. In addition, the Department maintains several emergency connections to and from neighboring water agencies, including the Santa Fe Irrigation District, the Poway Municipal Water District, Cal-American, the Sweetwater Authority and the OWD.

***Additional Water System Facilities***. The City has a robust Water System CIP that provides for continuous improvements and additions to the Water System. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM." One of the most significant components of the Water System CIP is the Pure Water Program, which is a multi-year program that is being undertaken in phases in conjunction with improvements to the City's Wastewater System. One of the goals of the Pure Water Program is to increase the City's production of local water in order to reduce water purchases and reduce the City's dependency on imported water sources. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Pure Water Program."

# WATER SUPPLY

## Sources of Water Supply

The Water System typically receives approximately 85-90% of its potable water supply from water purchased from CWA; and 10-15% from rainfall, runoff or prior water purchases stored in its nine impounding reservoirs. The CWA purchases water from MWD and has entered into various contracts to diversify its water supply. See “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Pure Water Program” for a description of the City’s capital improvements to decrease its reliance on imported water.

The following table reflects the total water sources of supply used for delivery of potable water to the City for Fiscal Years 2018 through 2022.

**TABLE 7**
**WATER SUPPLIES USED FOR DELIVERY OF POTABLE WATER**
**Fiscal Years 2018 through 2022**
**(In AF)**

| Fiscal Year | Local Water Supplies | CWA Water Supplies | Total Water Supplies for Potable Use |
|---|---|---|---|
| 2018 | 32,626 | 156,075 | 188,701 |
| 2019 | 28,656 | 152,322 | 180,978 |
| 2020 | 27,930 | 151,833 | 179,763 |
| 2021 | 39,992 | 144,708 | 184,700 |
| 2022 | 20,400 | 170,800 | 191,200 |

Source: Public Utilities Department, City of San Diego.

## Certain Information Regarding the San Diego County Water Authority and Metropolitan Water District of Southern California

***CWA/MWD Information Disclaimer.*** From time to time, CWA and MWD provide information (“CWA/MWD Information”) about their financial and operating conditions to the public. This information often includes information concerning, among other things, the recent developments with respect to CWA and MWD, operating revenues and expenses (historical and projected), debt service, water supply, conservation measures, water delivery systems and capital investment plans. CWA/MWD Information can be found on the website of the Municipal Securities Rulemaking Board (“MSRB”) through the Electronic Municipal Market Access System (“EMMA”), including offering documents related to securities of CWA or MWD or for which CWA or MWD, as the case may be, is an obligated person for the purposes of SEC Rule 15c2-12. CWA and MWD have indicated that each, as the case may be, has entered into certain continuing disclosure undertakings pursuant to which it is required to file certain annual financial and operating information and notices of certain enumerated events with the MSRB through the EMMA System. CWA/MWD Information, including information contained in the aforementioned offering documents and continuing disclosure reports, and any other information contained on the website of the MSRB is not incorporated by reference into this Official Statement. The City undertakes no responsibility for and makes no representation as to the accuracy or completeness of (i) any CWA/MWD Information or (ii) any material contained on the website of the MSRB, including, but not limited to, updated information on the website of the MSRB or links to other Internet sites accessed through the website of the MSRB. Such information is not guaranteed by the City as to its accuracy or completeness and no representation is made as to the sufficiency of such information for all purposes or the absence of material adverse changes in such information subsequent to the date of the respective publicly available source document. Neither CWA nor MWD has entered into any contractual commitment with the City or the owner of the Bonds to provide information with respect to CWA to the City or the owner of the 2023A Bonds. Neither CWA or MWD has reviewed this Official Statement and neither of CWA or MWD has made any representations or warranties with respect to the accuracy or completeness of the information contained or incorporated in this Official Statement, including information regarding CWA or MWD.

***San Diego County Water Authority.*** The Department relies on water purchased from CWA to meet its current water supply requirements. According to publicly available information published by CWA, CWA currently acquires the majority of its water from three main sources: (i) desalinated water, (ii) independent water purchases and (iii) MWD. According to MWD, MWD obtains its water from the Colorado River through the United States Bureau of Reclamation and from northern California via the State Water Project (the "SWP"), through the California Department of Water Resources ("DWR").

Pursuant to information published by CWA:

> In Fiscal Year 2022, (i) CWA member agencies' combined imported and local water use totaled 491,767 AF; (ii) local and supplemental sources accounted for 93,949 AF or 19% of the total water used (includes surface, recycled, seawater desalination, and groundwater supplies, and excluding estimated water savings from conservation programs); (iii) imported supplies accounted for 397,818 AF or 81% of the total water used; and (iv) approximately 467,187 AF of imported water supplies was used for municipal and industrial needs, with the balance going to meet agricultural demands.

CWA has sued MWD in various related cases, mainly pertaining to alleged rate overcharges by MWD. CWA has been paying the disputed MWD rates over the years, so the cases generally relate to potential damages to be awarded to CWA, not additional new payments or damages to MWD.

***The Metropolitan Water District of Southern California.*** MWD was created in 1928 to provide wholesale imported water to its member agencies.

According to publicly available information published by MWD:

> MWD sources portions of water from legal entitlements to receive water from the Colorado River by means of the Colorado River Aqueduct ("CRA") and from legal entitlements to receive water from the Feather River by means of the Sacramento-San Joaquin Delta and the California Aqueduct through SWP and MWD's State Water Contract (as amended, the "State Water Contract") with DWR.
>
> MWD also has a number of water transfer and storage and exchange programs with state, federal, public and private water districts and individuals in order to augment its imported water supplies.



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In addition to making its imported water supplies available for annual consumptive uses, MWD also purchases and stores excess imported water in wet years for use in dry years.

In Fiscal Year ended 2022, CWA accounted for 335,476 AF or 20.4% of water transactions by MWD, resulting in CWA being the second largest principal customer of MWD for that period.

For a discussion of certain risk factors related to the foregoing, see "REGULATORY RISKS" and "RISK FACTORS."

On December 1, 2022, DWR announced an initial SWP allocation of 5% of the total water supplies requested by public water agencies, including MWD, for calendar year 2023, due to continued extreme drought conditions. However, based on the amount of water captured from storms in January 2023 in California, DWR subsequently announced on January 26, 2023 that the SWP allocation will increase to 30% of requested water supplies in 2023. The SWP allocation is highly dependent on rainfall and certain other factors, and is adjusted throughout the year. This allocation may be further increased or decreased by DWR based upon future evaluations of available resources. The City cannot predict and provides no assurances regarding the occurrence or timing of any subsequent changes in the 2023 SWP allocation. An SWP allocation is made for each calendar year and adjusted through the year based upon projected water supplies.

**CWA Wholesale Water Rates**

CWA charges a volumetric rate that includes both a commodity rate and a transportation rate, both of which have been increasing, as indicated in the table below. Historically, on average, approximately 85% of the City's potable water deliveries were provided from purchases of water via CWA. The following table describes the cost to purchase treated and untreated water per AF from CWA, as well as the cost to transport the purchased water. Of the total amount of water purchased from CWA during Fiscal Year 2022, approximately 160,300 AF was untreated water, and 10,500 AF was treated water. Over the last five calendar years, the combined rate of untreated water and transportation from CWA has increased approximately 22%.

**TABLE 8**
**CWA WATER SUPPLY RATES[(1)]**
**for Calendar Years 2019 through 2023**

| | Municipal & Industrial (M&I) Rates per AF | | |
|---|---|---|---|
| Calendar Year | Untreated | Treated | Transportation Rate |
| 2019 | $ 909 | $1,185 | $120 |
| 2020 | 925 | 1,205 | 132 |
| 2021 | 940 | 1,235 | 150 |
| 2022 | 1,009 | 1,319 | 173 |
| 2023 | 1,085 | 1,435 | 173 |

(1) Rates shown are for volumetric charges only and do not include the additional fixed charges displayed in the following table.
Source: CWA Board Meeting Documents.

CWA is obligated to purchase a minimum of 48,000 AF of desalinated water from the desalination plant in Carlsbad, California. This is approximately 10% of CWA's water supply portfolio. The desalination plant requires significant State-mandated improvements that are anticipated to occur in 2023 and 2024, which may cause the desalination plant to be temporarily shut down. CWA has indicated that if a shutdown is required, CWA anticipates pre-purchasing water during such time for future-delivered water. The capital project costs are estimated to be approximately $274 million and are anticipated to be financed through multiple sources, including tax-exempt bonds and an additional WIFIA loan. The cost of improvements will be passed on to CWA via an adjustment to the unit price of purchased desalinated water. These costs are anticipated to be passed on to member agencies such as the City. The CWA water supply rates for 2023, as set forth in Table 8, do not include any costs associated with the desalination plant improvements as such costs and pass-through amounts continue to be assessed by CWA.

In addition to the volumetric charges the City pays for imported water, both CWA and MWD also levy fixed charges on their member agencies. CWA assesses fixed charges to maintain its system capacity and infrastructure, and fixed charges are allocated to member agencies based on either their historical share of delivered water or their number of retail water meters. MWD assesses fixed charges to CWA, and CWA passes through these MWD charges to member agencies based on historical averages of delivered water sourced from MWD. CWA is in the process of evaluating both its fixed and volumetric charges with the primary goal of recovering a greater portion of CWA's revenue requirement from fixed charges. The goal of the shift in rate design is to provide CWA additional financial stability in light of potential reduced future sales as several agencies, including the City, strive to reduce their reliance on imported water. The City is not able to accurately quantify the impact of the change in rate design at this time. Upon completion of the CWA's analysis and any proposed rate changes from CWA, the City will evaluate the potential impact to the costs of imported water from CWA and any fiscal impact to the Water System. The following table provides the fixed charges allocated to the City by CWA between calendar years 2018 and 2022. Because some of the fixed charges are based on a Fiscal Year basis, while other fixed charges and commodity charges are based on Calendar Year, total water purchase costs for Fiscal Year 2022 are calculated using a combination of Calendar Year 2021 and 2022 fixed supply rates in Table 9 and commodity (water supply) rates in Table 8. In Fiscal Year 2022, the total Cost of Purchased Water Used was $280.5 million (with $277.9 million of the cost for water purchases and $2.6 million for In Lieu Tax payment). Cost of Purchased Water was approximately 49% of the total Water Utility Fund's Operating Expenses in Fiscal Year 2022.

**TABLE 9**
**MWD AND CWA FIXED WATER SUPPLY COSTS**
**Calendar Years 2018 through 2022**
**($ Amounts in Thousands)**

| Calendar Year | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| **MWD Fixed Charges** | | | | | |
| Capacity Reservation Charges | $ 3,330 | $ 2,759 | $ 2,744 | $ 3,338 | $ 3,745 |
| Readiness-to-Serve Charge(1)(2) | 6,965 | 6,384 | 5,515 | 5,003 | 4,562 |
| **CWA Fixed Charges** | | | | | |
| Customer Service | 9,928 | 9,952 | 9,810 | 9,892 | 10,059 |
| Emergency Storage Charge | 26,714 | 27,456 | 27,045 | 25,046 | 25,375 |
| Infrastructure Access Charge | 14,147 | 14,190 | 17,297 | 20,097 | 20,111 |
| Supply Reliability Charge | 11,808 | 12,516 | 15,425 | 16,283 | 16,610 |
| In Lieu Tax Payment(1) | 2,238 | 2,386 | 2,504 | 2,680 | 2,951 |
| **Total Fixed Charges** | **$75,130** | **$75,643** | **$80,340** | **$82,339** | **$83,413** |

(1) Fiscal Year charge; all other charges based on Calendar Year.

(2) The Readiness-to-Serve charge is a function of the 10-year rolling average of water purchases for CWA and the rate established by MWD. The rate from MWD remained stable for the shown period while purchases from CWA declined, leading to the reduction in charges.

Source: San Diego County Water Authority Board Meeting Documents and Public Utilities Department, City of San Diego.

***Local supply and storage programs.*** Both MWD and CWA have encouraged the development of additional water supply projects such as water recycling and groundwater projects by their member agencies. MWD offers incentives of up to $340 per AF for up to 25 years for recycled water and desalinated groundwater and seawater produced and beneficially reused within MWD's service territory through its Local Resources Program. CWA provides similar incentives through its Local Water Supply Development Program. The purpose of the Local Resources and Local Water Supply Development Programs is to promote the development of cost-effective local supply projects that prevent or reduce the demand for imported water and improve regional water supply reliability. These two programs reimburse member agencies for all or a portion of the difference between the actual per AF cost of producing local supplies, and the revenue generated by the participant through the sale of that AF of recycled water. The City's existing water recycling projects receive incentives from both MWD and CWA programs with contract terms expiring in 2023. CWA stopped accepting new applications for the Local Water Supply Development Program in 2009.

MWD's Local Resources Program incentive continues to be an attractive option for future water supply projects such as the City's Pure Water Program, which is intended to reduce the Department's dependence on CWA water supplies. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Pure Water Program." In December 2019, the MWD Board approved the City's application for funding up to 33,600 acre-feet per year ("AFY") at a rate of $340 per AF, or up to $11,424,000 per year, for 25 years beginning when Phase 1 of the Pure Water program is in full production. MWD has indicated that it is considering future options for the Local Resources Program, as the original program lacked long-term funding for new applications

**Local Water**

The vast majority of the City's local water comes from the rainfall that is captured as run-off via the watersheds of its nine impounding reservoirs. Although the City has several groundwater basins within its jurisdiction, the groundwater from these basins is predominantly brackish. Improved technologies for processing brackish groundwater and past severe drought have made using groundwater more attractive when discussing a foreseeable affordable water supply source. While the City is pursuing several groundwater projects, groundwater does not currently provide a significant source of water for the City. The City is assessing the development potential of its groundwater basins. One of the most significant components of the Water System CIP is the Pure Water Program, which is a multi-year program that is being undertaken in phases to increase local water supplies. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Pure Water Program."

**Recycled Water**

The City has made significant capital investments in the recycled water program, which treats wastewater so that it can be used for purposes other than drinking water. Recycled water usage is seasonal and is primarily used for irrigation. Customers also use the water for dust suppression or soil compaction at construction sites, in cooling towers, ornamental fountains, and for office building toilet and urinal flushing (dual plumbing). The City is significantly upgrading its use of recycled water through its Pure Water Program. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Pure Water Program."

**City Water Conservation Efforts**

The Water Conservation Program was established by the City Council in 1985 and promotes permanent water savings. These savings have been achieved by creating a water conservation ethic, adopting programs, policies, and ordinances designed to promote water conservation practices, and implementing comprehensive public information and education campaigns.

The Department utilizes a broad range of conservation methods, including public outreach, rebate incentives, residential and commercial surveys, use restrictions and enforcement. Since the Governor's mandate in 2015 during the height of the last multi-year drought, the City has implemented long-term changes to achieve water conservation. The City has instituted several conservation measures such as offering rebates for installation of pressure reducing valves, grey water systems, rain barrels and turf conversion projects. The Department also encourages customers to participate in regional rebate programs to utilize non-city funding while achieving additional conservation. Water Conservation efforts also include free residential and commercial surveys. The surveys are offered to City water customers and provide an in-depth assessment of the customer's water fixtures and usage throughout the property.

The Department works closely with the City's Planning and Development Services Departments to incorporate water conservation requirements into the City's planning and permitting processes in order for new communities and properties to have water-efficient landscapes. Changes in water conservation technologies may require periodic reassessment of long-range plans and water conservation programs to ensure that savings are realized.

**City Planning and Resource Management**

The City has developed and continues to develop strategic plans for the Water System to address water supplies and future demand.

***2012 Long-Range Plan***. A principal planning document is the City's 2012 Long-Range Water Resources Plan ("2012 Long-Range Plan"), completed in December 2013. The 2012 Long-Range Plan is a high-level strategy document that was created to provide information to decision-makers regarding the tradeoffs of future water resource investments, with a long-range viewpoint through the year 2035 planning horizon. It presents a strategic vision for water supply, and identifies a number of short-term and long-term actions to reduce reliance on imported water and improve supply reliability for the City. The plan recommends that the City implement potable reuse as a long-term strategy for maximizing local supply – this ultimately led the City to pursue the Pure Water Program. See "– Pure Water Program" for additional information. Components of the 2012 Long-Range Plan are included in the City's current urban water management plan (see description of the 2020 UWMP under "– Urban Water Management Plan" below) and the prescribed actions are updated every five years as part of the City's urban water management plan.

***Urban Water Management Plan.*** The Department is required by the Urban Water Management Planning Act, California Water Code Sections 10610 through 10657, to prepare and adopt an Urban Water Management Plan ("UWMP") every five years. These plans support the suppliers' long-term resource planning to ensure that adequate water supplies are available to meet existing and future water needs over a 20-year planning time frame. The plans describe and evaluate sources of supply, reasonable and practical efficient uses, reclamation, and demand management activities. Within UWMPs, urban water suppliers must assess the reliability of water sources over a 20-year planning time frame, describe demand management measures and water shortage contingency plans. In addition, the UWMP serves as the Department's Long Range Strategic Planning document because it incorporates much of information included in the Department's Strategic Plan and it is updated more frequently. The 2020 Urban Water Management Plan ("2020 UWMP") was the last UWMP adopted by the City Council on May 18, 2021.

**Projected Future City Water Demand**

When compared with the long-range demand projections published in the City's 2020 UWMP, the Department is assuming lower near-term potable water demand based on observed sustained conservation efforts from response to previous years' drought conditions. See "WATER SYSTEM FINANCIAL OPERATIONS – Financial Projections and Modeling Assumptions" for more information. There can be no assurance that the local demand for the services provided by the Water System will be maintained at these levels. See "RISK FACTORS – Water System Demand."

## WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM

**The Capital Improvement Program**

The Water System CIP is established to address current and future system needs in a cost-effective manner. The principal drivers of the Water System CIP are: improving infrastructure to reduce pipeline breaks and emergency repairs; improving process technology; improving the Water System to meet system demands and regulatory standards, including compliance with the Federal Safe Drinking Water Act and the DDW Compliance Order; and implementation of the Pure Water Program.

**Description of Major Projects**

The Department has developed the Water System CIP to address current and future Water System needs. The current cost estimate of Water System CIP projects for the period from Fiscal Years 2023 through 2028, with inflation, is over $2.2 billion, and the cost estimates are subject to change. The budget for each project and program is established and approved by the City Council and adjustments to such budgets require approval of the City Council. The Water System CIP is comprised of nine project categories. The following is a brief description of the Water System CIP by categories. The eight categories below that are not Pure Water Program projects are collectively referred to as the Water System's "Baseline" CIP projects.

Outside of the five-year projections, the Department anticipates significant projects relating to dams and reservoir improvements. The City plans to undertake complete condition assessments for all nine of the dams within the Water System over the next five years. Upon completion of the condition assessments, additional capital improvement projects to make dam repairs and improvements may be necessary. See "REGULATORY RISKS – Dam Licensing and Safety Issues" for additional information.

***Pure Water Program***. The Pure Water Program is the Department's program to provide a safe, secure, and sustainable local drinking water supply for San Diego. Advanced water purification technology will be used to produce potable water from advanced primary treated water. See "WATER SYSTEM CAPITAL IMPROVEMENT PLAN – Pure Water Program" for additional information on the Pure Water Program.

***Transmission Pipelines***. Transmission pipelines are designed to transport water from the major supply sources (water treatment plants, pump stations and potable reservoirs) to supply the distribution grid. The Water System CIP provides for the replacement of 16-inch and larger diameter water pipelines at various locations throughout the City, which are in a deteriorated condition or have reached the end of their service life. The Department is also assessing its transmission pipelines and is scheduling the replacement of these pipelines based on the condition of existing facilities, system needs and available funds.

***Distribution Pipelines***. The Water System CIP includes the replacement of distribution water pipelines located throughout the City. Distribution pipelines are supplied by the transmission system and run throughout the City's street grid to supply the customer service connections. The Department plans the awarding of contracts for the replacement of 30 to 35 miles per fiscal year, which includes cast iron pipes mandated by the DDW Compliance Order and high priority asbestos cement pipes based on their higher risk of failure and degraded condition.

***Water Storage Facilities***. The Water System CIP includes projects that will replace and/or make improvements to the existing water storage facilities throughout the Water System. The largest single project in this category is the replacement of the Hodges Dam, which is expected to stay within the projected timeline. The current projected cost for this project is approximately $125 million, however that cost may change based upon the completion of the dam assessments and evaluations.

***Water Treatment Plants***. The Water System CIP provides for upgrades and improvement of the treatment facilities at Alvarado, Miramar, and OWTP.

***Pump Stations***. The Water System CIP includes projects that will upgrade, rehabilitate and construct pump stations throughout the Water System to improve service reliability and the ability to accommodate current and future water demands.

***SDG&E Relocation Advance***. The City and SDG&E are currently in dispute over the costs of utility relocations in connection with the Pure Water Program and other Water System infrastructure. Absent and until a resolution is reached, to avoid project delays, the City has included projected costs to advance funding to SDG&E to relocate certain energy utility assets.

***Groundwater***. The Water System CIP provides for investigation work related to legal, technical, regulatory, and water quality issues; and for the planning, design, and construction of groundwater facilities to increase the local water supply.

***Miscellaneous***. Other CIP projects include the construction of an administrative building (Chollas Building), water security projects at reservoirs and dams; solar projects; pressure regulating station replacements; instrumentation and control upgrades at water facilities; and the Advanced Metering Infrastructure ("AMI") project, which is the Department's project to replace all existing meters with automated "Smart Meters" and its associated infrastructure.

The following table shows categories of projects with the estimated cost of expenditures contained in the Water System CIP for the period of Fiscal Years 2023 through 2028. Final Water System CIP project costs will be refined as the Water System CIP progresses. The budget for each project and program is established and approved by the City Council and adjustments to such budgets require approval of the City Council. Beyond the next five years, the City expects an increase in expenses for Phase 2 of the Pure Water Program, the completion of the Hodges Dam replacement project, the initiation of additional dam projects and the replacement of approximately 35 to 40 miles of pipeline each fiscal year.

**TABLE 10**
**SUMMARY OF PROJECTED WATER SYSTEM CIP PROJECTS(1)(2)(3)**
**Fiscal Years 2023 through 2028**
**($ Amounts in Thousands)**

| | Estimated | Projected | | | | | Fiscal Year 2023-2028 |
|---|---|---|---|---|---|---|---|
| **Description** | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **Total(4)** |
| Pure Water Program(5) | $254,938 | $262,963 | $118,161 | $57,603 | $19,087 | $33,386 | $746,138 |
| Transmission Pipelines | 35,204 | 103,216 | 92,634 | 66,738 | 68,465 | 61,681 | 427,939 |
| Pipelines | 85,123 | 124,477 | 102,337 | 86,975 | 73,879 | 86,392 | 559,183 |
| Storage Facilities(6) | 4,757 | 10,110 | 17,467 | 28,452 | 39,529 | 27,363 | 127,678 |
| Water Treatment Plants | 6,009 | 10,284 | 13,036 | 23,178 | 30,148 | 25,689 | 108,344 |
| Pump Stations | 7,051 | 5,172 | 6,652 | 11,035 | 18,864 | 18,001 | 66,775 |
| SDG&E Relocation Advance(7) | 36,202 | -- | -- | -- | -- | -- | 36,202 |
| Groundwater Projects | -- | -- | -- | 77 | 395 | 1,223 | 1,695 |
| Miscellaneous Projects(8) | 4,644 | 6,096 | 11,826 | 19,361 | 36,146 | 25,051 | 103,124 |
| **Total(4)** | **$433,928** | **$522,318** | **$362,113** | **$293,419** | **$286,513** | **$278,786** | **$2,177,077** |

(1) Projections as of November 2022 for the Water System Baseline CIP (which represents the Water System CIP costs excluding the costs of the Pure Water Program) and for the Pure Water Program.

(2) Amounts reflect the aggregate costs of all Water System CIP projects required to satisfy the DDW Compliance Order as well as projects related thereto or necessary for the operation thereof.

(3) The projected amounts in Fiscal Year 2024 and onward reflect an annual inflation rate of 3.1% due to anticipated increases in construction costs over time and the expected execution of the Water System CIP, with the exclusion of the Pure Water Program which inflates non-construction costs by 3.1% starting in Fiscal Year 2025.

(4) Figures may not add to total due to independent rounding.

(5) Projections include only the portion of the Pure Water Program attributable to the Water System and do not include $46.4 million in unprogrammed contingency projecting funding. Projections include approximately $85.5 million for Pure Water Program Phase 2.

(6) Storage Facilities include treated and untreated water reservoirs.

(7) Funding for the SDG&E Relocation Advance in Fiscal Year 2023 will be provided by the unallocated Fund Balance.

(8) Miscellaneous Projects include water security projects, laboratory improvements, solar projects, and the Advanced Metering Infrastructure project.

Source: Public Utilities Department, City of San Diego.

## Pure Water Program

***General***. The Pure Water Program is the largest infrastructure project in the City's history, consisting of multi-year improvements and additions to the City's Wastewater System that will enable the City to (i) upgrade the Point Loma Wastewater Treatment Plant (the "Point Loma Plant") to Clean Water Act standards and (ii) reduce the City's reliance on imported water and produce a sustainable local drinking water supply. Advanced water purification technology will be used to produce potable water from recycled water already treated to Title 22 specifications under the California Code. It is contemplated that the Pure Water Program will be implemented in two phases, subject to adjustment as described below. At full implementation in 2035, the Pure

Water Program is expected to reduce the City's ocean wastewater discharges by more than 50% and increase the City's local water supply to approximately half the City's water portfolio (at least 83 mgd capacity of potable water). Multiple financing sources have been and will be used to fund the Pure Water Program, including grants, low interest rate long-term debt, and Water System and Wastewater System revenues. The use of multiple funding sources mitigates the impact to rate-payers by distributing the revenue requirements among all those who will benefit from the Pure Water Program.

The Pure Water Program consists of many complex, interrelated capital projects. As the capital projects are undertaken, construction costs may change from prior estimates due to multiple factors, including but not limited to, availability of supplies and labor, unforeseen project adjustments, and increasing costs. Contingencies are incorporated into each project; however, depending upon the magnitude of the necessary cost adjustments, these contingencies could be exceeded, resulting in costs increasing materially higher than reflected in the City's projections described herein for one or more of the projects. The use of multiple funding sources will allow the Department to evaluate the program and address increased costs on an as needed basis. Any potential capital cost adjustments would only impact the capital cost of the Pure Water Program and are not anticipated to impact projected operational costs of the Pure Water Program.

***Pure Water Program – Phase 1***. The Phase 1 projects are being constructed in the North City area of the City and are expected to produce up to 30 mgd of purified drinking water. The projects include: (1) the North City Plant expansion and influent conveyance; (2) the new North City Advanced Water Purification Facility which will treat the tertiary-treated water to purified water standards; (3) a new 30 mgd North City Pure Water Pump Station, which will convey the purified water to the Miramar Reservoir; (4) a new 8-mile North City Pure Water Pipeline at the end of which the purified water will be blended with the City's other water supplies and be treated at the adjacent Miramar Water Treatment Plant and distributed to customers; (5) the North City Morena Boulevard Pump Station and Pipeline, which will convey wastewater from the pump station to the North City Water Reclamation Plant for treatment; and (6) certain Miramar Water Treatment Plant and Miramar Reservoir Pump Station Improvements, which will continuously pump the raw water from the Miramar Reservoir to the Miramar Water Treatment Plant. California Environmental Quality Act and National Environmental Policy Act reviews are complete for the North City Phase 1 Project, and the Environmental Impact Report ("EIR") was certified by the City Council on April 10, 2018. The U.S. Bureau of Reclamation issued the Record of Decision on the Final Environmental Impact Statement on November 1, 2018, and in May 2020, the Miramar Reservoir NPDES Permit, which allows purified water to be released to the Miramar Reservoir, was formally adopted by the Regional Water Quality Control Board. That master permit established a schedule for several conditions that must be satisfied before water can be released to the Miramar Reservoir. In 2021, work continued on the Pure Water Facility Operations Plan, as well as a program to establish any additional limits on discharges to the collection system to protect the Pure Water Program facilities and reservoir water quality. The plan outline for the operational start up and release to the Miramar Reservoir was reviewed with regulators and preparation of the plan is underway.

The total cost for the Pure Water Program Phase 1 is projected to be $1.56 billion, which includes a 10% project contingency. The Department has determined that costs for the program will be allocated between the Water Utility Fund and Sewer Revenue Fund of the Water System and Wastewater System, respectively, in the following manner: all capital and operational costs related to facilities for the conveyance of wastewater and the treatment of the wastewater through secondary treatment would be borne by the Sewer Revenue Fund (including its customers and regional partners); all capital and operational costs related to treatment and conveyance of reused water treated beyond the secondary standards will be borne by the Water Utility Fund. Based on the cost allocation between the Water System and the Wastewater System, approximately $908 million is allocated to the Water Utility Fund and approximately $654 million is allocated to the Sewer Revenue Fund. These costs include contractual services for program management, treatment process optimization, environmental reports, and design and construction support services. Final cost allocation of the Phase 1 projects will begin after substantial completion is reached. Of the $908 million in costs allocated to the Water System for Phase 1, approximately $201 million has been expended through Fiscal Year 2022, with the remaining $707 million projected for Fiscal Years 2023 through 2027. The Phase 1 projects for the Water System overall are expected to be funded with $733.5 million in WIFIA Loans, $44 million in grant funding, and the remaining amounts in cash or previously issued bonds. See "—Capital Improvement Financing Plan—WIFIA Loans." See also TABLE 10 "SUMMARY OF PROJECTED WATER SYSTEM CIP PROJECTS" and TABLE 11 "PROJECTED SOURCES OF FUNDS FOR CAPITAL EXPENDITURES OF THE WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM" below.

As of the date of this Official Statement, all construction contracts for Phase 1 have been awarded and construction is approximately 25% complete. The costs and construction timeframe, however, remain subject to various uncertainties. Among other things, the economic impacts related to the COVID-19 pandemic and the war in Ukraine have impacted and will likely continue to impact the cost and availability of materials. Prime contractors have communicated challenges with obtaining key materials and equipment necessary for the timely construction of Phase 1 of the Pure Water Program. Several contractors have also signaled possible construction delays and cost increases due to supply chain issues. To achieve Phase 1 full production of 30 mgd, construction of nearly all individual components of Phase 1 must be completed and commissioned at approximately the same time. To be financially prudent, City staff are developing both operational and financial contingency plans. The financial projections take into account potential delays in capital expenditures and water production. The timing of water production assumes the possibility of a delay in the commissioning process of Phase 1 such that full production would not be reached until Fiscal Year 2027. If commissioning were to occur sooner, City water purchases would be reduced commensurate with the water produced by Phase 1. Completion of Phase 1 will more than double the amount of local water available, reducing the City's need for imported water, making it more resilient to the long-term impact of drought.

***Pure Water Program Phases***. Phased implementation allows the City to adapt to changing conditions, and in some cases, update previous planning assumptions. The City continues to review and evaluate the various phases of the Pure Water Program, including the methods to be employed to purify water and the final locations of the facilities. The remaining 53 mgd of the total 83 mgd Pure Water Program goal (i.e., the portion not being produced as part of Phase 1) was originally planned to be delivered by facilities located in the central and southern areas of the City. As part of its update to the Pure Water Program plan (which includes accounting for changes in treatment technology, wastewater flows, water demands, and projections of both flows and demands), the City is evaluating the feasibility of producing all of the remaining 53 mgd in the Central Area

(Phase 2), as described below. The major remaining decision for the Phase 2 Central Area projects is whether to use Murray Reservoir or San Vicente Reservoir as the discharge location for Phase 2 Central Area purified water. If the City elects to utilize the Murray Reservoir as the discharge location, the project would be structured as direct potable reuse because the geographical limitations of the reservoir are not compatible with indirect potable reuse, which is the approach being used for the North City projects in Phase 1. As existing regulations do not prescribe requirements for direct potable reuse, a project for direct potable reuse at the Murray Reservoir would require the City to work with State regulatory bodies to develop new parameters. No assurance can be given as to the timing and costs associated with such parameters. The implementation of Phase 1 is not dependent on implementation of any other phase of the Pure Water Program.

The City contemplates that Phase 2 of the Pure Water Program will include one or more facilities in the area near the West Basin, East Basin and San Diego International Airport (referred to herein as the "Central Area"). As part of the work for Phase 2, the City is designing and constructing a demonstration facility to prove that the processes contemplated as part of Phase 2 can produce purified water in compliance with the regulatory requirements for potable reuse. The results of the demonstration facility testing will also help determine parameters for full-scale design of the Phase 2 facilities. The Phase 2 demonstration facility is expected to begin operations in 2025. Approximately $85.5 million for work associated with Phase 2, including $25.4 million for the demonstration facility and $60.1 million for the Central Area facility, are included in the projected Water System CIP expenditures through Fiscal Year 2028. See TABLE 10 "SUMMARY OF PROJECTED WATER SYSTEM CIP PROJECTS." The $85.5 million of Phase 2 costs occurring between Fiscal Year 2023 through 2028 will be funded from cash. Phase 2 of the Pure Water Program continues to be evaluated and remains subject to change.

**Capital Improvement Financing Plan**

The Water Utility Fund's share of the costs of the projects in the Water System CIP for Fiscal Years 2023 through 2028 is expected to be approximately $2.2 billion in the aggregate.

Overall, the Water System CIP for Fiscal Years 2023 through 2028 is expected to be financed with a combination of additional Obligations (revenue bonds and Commercial Paper Notes), proceeds from two WIFIA Loans, proceeds from several SRF Loans; and funded by cash and Capacity Charge revenues. Some, but not all, of the funding sources for certain projects of the Water System CIP have already been secured. The estimated costs of, and the projected schedule for, the Water System CIP are subject to various uncertainties. In addition, it is possible that the City will pursue projects not incorporated in the Water System CIP. The City may ultimately decide not to proceed with certain Water System CIP projects or may proceed with them on a different schedule, resulting in different results than those described in this Official Statement. See "RISK FACTORS – Water System CIP."

***WIFIA Loans***. A portion of the Pure Water Program Phase 1 expenditures is expected to be financed with the proceeds of two WIFIA Loans in the aggregate amount of $733.5 million. As of the date of this Official Statement, approximately $145 million has been advanced under the WIFIA Loans. Water Utility Fund Obligations incurred to finance Phase 1 of the Pure Water Program is subordinate to the City's obligation to make 2023 Installment Payments.

***SRF Loans***. The City anticipates financing a total of $377.9 million of Baseline CIP projects with proceeds of SRF Loans. Of this amount, $0.3 million is expected to be disbursed from an existing SRF Loan. In addition, the State Water Resources Control Board's Drinking Water State Revolving Fund Loan Program has allocated funding for two transmission pipeline replacement projects in Fiscal Year 2023 that are currently estimated to total $210 million. The City has submitted applications for three projects that are estimated to total approximately $129 million; the applications are in various phases of review. The City anticipates applying for SRF funding for the remaining $38.6 million in projects over the course of the next five years. The timeline for SRF reimbursements has ranged from 45 days to 6 months, so the fiscal year in which the funding is received is subject to change.

***Additional Obligations.*** For Baseline CIP, it is expected that costs will be financed with proceeds from Commercial Paper Notes/Revenue Bonds in the amount of approximately $596 million during this period. The aggregate principal amount of Commercial Paper Notes outstanding at any time may not exceed $250 million, therefore the Department projects to repay Commercial Paper Notes by issuing Revenue Bonds approximately every two years. The timing of these note and bond offerings are dependent on the project construction schedules and cash flow needs.

***Department Cash and Capacity Charge Revenues.*** A portion of the Pure Water Program is expected to be funded with Department cash based on final project costs; and a portion of the Baseline CIP is expected to be funded with Department cash and Capacity Charge revenues in the amount of approximately $560.6 million.

See "WATER SYSTEM FINANCIAL OPERATIONS – Financial Projections and Modeling Assumptions." Notwithstanding any contributions from the Sewer Revenue Fund to finance Pure Water Program components of the Water System CIP, amounts from the Sewer Revenue Fund are not available to pay principal of and interest on the 2023A Bonds.

**TABLE 11**
**PROJECTED SOURCES OF FUNDS FOR CAPITAL EXPENDITURES OF THE WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM**
**Fiscal Years 2023 through 2028**
**($ Amounts in Thousands; Except for Footnotes)**

| | Estimated | Projected | | | | | Fiscal Year 2023-2028 |
|---|---|---|---|---|---|---|---|
| | **2023** | **2024** | **2025** | **2026** | **2027** | **2028** | **Total** |
| **Source of Funds for Pure Water Program CIP[(1)]:** | | | | | | | |
| WIFIA Loans | $257,021 | $254,273 | $117,271 | $13,962 | -- | -- | $642,527 |
| Commercial Paper/Revenue Bonds | -- | -- | -- | -- | -- | -- | -- |
| SRF Loan | -- | -- | -- | -- | -- | -- | -- |
| Grants | -- | -- | -- | -- | -- | -- | -- |
| Cash[(2)] | (2,083) | 8,690 | 890 | 43,641 | $19,087 | $33,386 | 103,611 |
| **Total Source of Funds for Pure Water Program CIP** | **$254,938** | **$262,963** | **$118,161** | **$57,603** | **$19,087** | **$33,386** | **$746,138** |
| **Source of Funds for Baseline CIP:** | | | | | | | |
| Commercial Paper/Revenue Bonds | $76,073 | $60,000 | $92,000 | $178,000 | $90,000 | $100,000 | $596,073 |
| SRF Loans[(3)] | 315 | 79,412 | 103,752 | 110,265 | 55,970 | 28,202 | 377,916 |
| Grant | -- | -- | -- | -- | -- | -- | -- |
| Capacity Charge revenues/Cash[(4)] | 102,602 | 119,943 | 48,200 | (52,449) | 121,456 | 117,198 | 456,951 |
| **Total Source of Funds for Baseline CIP** | **$178,990** | **$259,355** | **$243,952** | **$235,816** | **$267,426** | **$245,400** | **$1,430,939** |

(1) Projections are based on full production of the Pure Water Program Phase 1 by Fiscal Year 2027.
(2) Negative cash is due to time delay between expenditures and reimbursement from the WIFIA Loans. Projections also assume that Phase 2 of the Pure Water Program is initially pay-go funded until loans are secured and will be reimbursed in future fiscal years.
(3) Includes proceeds through Fiscal Year 2028 for SRF Loans for certain Baseline CIP projects which the City plans to apply. The projected time frame for the distribution of SRF Loan funds may be delayed depending on the Drinking Water SRF Loan program's fund distribution timing.
(4) The increase in use of Capacity Charge revenues/Cash as a source for Baseline CIP in Fiscal Years 2023 and 2024 reflects projected SDG&E relocation expenses, the Phase 2 Pure Water Program demonstration facility and the Water System's obligations for the East County residual line.

Source: Public Utilities Department, City of San Diego.

## WATER SYSTEM FINANCIAL OPERATIONS

### Establishment of Water Service Charges

The primary revenue sources of the Water Utility Fund are generated from water sales to retail and wholesale customers. Retail water sales are collected on a combined utility bill, which includes water as well as sewer charges and storm drain fees; only receipts from water sales are revenues to the Water Utility Fund. The water component is comprised of two parts, a fixed monthly service charge or "Base Fee," based on the size of the water meter, and a commodity charge that is for the volume of water used. Bills are distributed on a bi-monthly basis for most customers and a monthly basis for high consumption residential, non-residential, and irrigation customers. Additional revenues are derived from capacity charges, interest earnings from the investments of available funds and rental income.

***Water Service Charges***. The Water System's water service charge for all retail user classes includes a fixed monthly service charge (also referred to as a base fee) and a commodity charge that is for the volume of water used. The base fee is determined by the customer's meter size, and is charged to the customer whether or not the customer uses water. The base fee is based upon the assumption that the Department incurs certain costs to make water available to serve the commodity to the water customer upon demand. The fee covers costs such as the general administrative costs of the Department for billing, payment processing, and account management related to the Water System. The size of the customer's connection provides an approximation of the amount of water the customer conceivably could have delivered to his or her property. The commodity charge is a set rate charge for each customer class based upon the amount of HCF of water consumed during the billing cycle multiplied by the fee associated with each tier or class. The City has a four-tiered commodity charge structure for SFR customers while all other customer classes are billed a uniform rate for their respective customer classification. See Table 14 for a schedule of commodity charges applicable to each customer class and the base fees for the various water meter sizes in the Water System through Fiscal Year 2023.

The Water System's tiered water rates for single-family residential customers are subject to ongoing litigation. See "LITIGATION – *Patz Litigation*."

***Wholesale Revenues.*** Wholesale customers pay negotiated charges that are calculated differently based on their unique characteristics and are contracted for specified terms. See Table 15 for historical water sale revenue for wholesale customers.

***Capacity Charges***. The term "Capacity Charge" means a charge imposed upon a person, firm, corporation or other entity incident to the granting of a permit for a new water connection or due to an increase in water usage by the addition of any type of dwelling, commercial or industrial unit, which charge is based upon an increase in water consumption as measured by equivalent dwelling units ("EDUs"), and the proceeds of which are restricted to be used to construct, improve and expand the Water System to accommodate the additional business of such added dwellings or commercial or industrial units.

Capacity charges are not treated as operating income for financial reporting purposes but are considered System Revenues and are accounted for in debt service coverage calculations. Pursuant to State law, capacity charge revenue can be applied only for paying costs associated with capital expansion, bonds, contracts, or other indebtedness of the Water System related to expansion. Capacity charges are included in the Capital Contributions line of Table 16 – Statement of Revenues, Expenses and Changes in Fund Net Position for the Water Utility Fund. Because capacity charges are primarily collected on new construction within the City, capacity charge revenues are impacted by increases and decreases in residential and non-residential construction. The current capacity charge is $3,047 per EDU, and has been unchanged since last adjusted in 2007. The water available for use for a typical SFR is equated to one EDU and equals 500 gallons per day.

Non-residential customers are charged based upon calculated usage or an inventory of plumbing components that are assigned a number of "fixture units," which are converted to EDUs using a conversion factor that equates 20 fixture units to one EDU. The minimum capacity assigned to any user is one EDU.

The following table sets forth the historical capacity charge revenues from Fiscal Years 2018 through 2022. Aggregate capacity charge revenues may not equal the amount derived by multiplying the capacity charge rate by the number of EDUs because of individual customer account characteristics.

**TABLE 12**
**WATER UTILITY FUND**
**HISTORICAL CAPACITY CHARGE REVENUES**
**Fiscal Years 2018 through 2022**

| Fiscal Year | New Equivalent Dwelling Units | Capacity Charge Revenues[1] |
|---|---|---|
| 2018 | 5,722 | $ 17,543,421 |
| 2019 | 3,273 | 10,125,667 |
| 2020 | 3,936 | 11,998,055 |
| 2021 | 4,833 | 14,727,291 |
| 2022 | 5,886 | 17,940,413 |

(1) Amounts include potable and recycled capacity charge revenues. Amounts are not available to pay for operations and maintenance costs.

Source: Department of Finance and Public Utilities Department, City of San Diego.

## Collection of Water Service Charges

In order for a person to receive water service and be billed for water fees, he or she must contact the Department to have water service initiated. The person initiating the service does not have to be the owner of the property to which the water is delivered. Each customer has a meter from which the Department measures the amount of the water consumed. The meter is read by the Department to calculate the volumetric portion of water fees to be charged based on customer classification.

All of the water used by the customer is billed. While water shutoffs for nonpayment are currently suspended (see "– Accounts Receivable" below), the Department's general practice is to grant one 14-day payment time extension on any invoice to help customers weather short-term financial challenges and time extensions for payment under limited conditions (*e.g.*, public health and safety, legal negotiations, or to avoid a negative impact to other ratepayers overall). The Department may also grant a payment plan. The Department may require a security deposit equal to two average billing periods and a fee of $25 will be imposed for each payment returned unpaid.

## COVID-19 Related Impacts

In Fiscal Year 2020, the outbreak of a new strain of coronavirus (also known as COVID-19), spread throughout the world, caused severe respiratory diseases, and was declared a pandemic by the World Health Organization. Since the initial outbreak, federal, State and local mandates have been issued and revised, including prior "stay-at-home" orders for all people except those whose work entailed providing essential services. On February 28, 2023, the State ended its COVID-19 state of emergency, which began in March 2020. The City's COVID-19 state of emergency ended simultaneously with that of the State, pursuant to a unanimous decision of the City Council on January 24, 2023.

The Department provides an essential public service and continues to operate all necessary functions to provide uninterrupted water and sewer service to customers and continues to bill all customers for services delivered. Although the Department has experienced supply chain issues that have both delayed and increased capital costs for its various projects, in part due to the effects of COVID-19, the Department has not seen usage decline outside of historical averages, including through the COVID-19 pandemic to date. The Department expects to continue suspension of water shutoffs for nonpayment by any customer classification. See "— Accounts Receivable" below for additional information on the Department's accounts receivable.

The 2022 COS Analysis (as herein defined) assumes revenue needs through Fiscal Year 2025 are met, with the expectation that COVID-19 will have moved from pandemic to endemic levels over the forecast period and will not represent a material impact to the Water System operations. However, no assurances can be given that the impacts of COVID-19 on the Water System, the Department's operations, and the City's economy will reflect historical trends to date.

**Accounts Receivable**

Beginning March 2018, the Department suspended water shutoffs for nonpayment for all customers, with the intention of resuming shutoffs upon resolution of various billing concerns. The Department also suspended collection practices on unpaid amounts and has not charged related late fees, or interest. In September 2018, California laws were enacted to restrict residential service from being discontinued unless certain policies are in place, including, among others, plans for deferred payments, alternative payment schedules, and formal mechanisms to dispute bills.

The City is considering policies consistent with Senate Bill 998 and the timeframe for when shutoffs may be reinstated is uncertain. The Department is currently in the process of updating its billing manual and shutoff policy to comply with California's new requirements, and these updates are expected to be completed in 2023. Upon movement of COVID-19 from pandemic to endemic levels, completion of these billing manual updates, and a subsequent outreach period, water shutoffs for nonpayment are anticipated to resume and to comply with California law. As a result of continued suspended water shutoffs, accounts receivable may increase in Fiscal Year 2023 if invoiced charges are not paid in a timely manner. Fiscal Year 2022 Accounts Receivable was 4.83% of Total Water Sales Revenues and those levels (or higher) may continue.

In January 2022, the City received a payment of approximately $19.7 million under the California Water Arrearage Payment Program administered by the State Water Resources Control Board to cover customer debt accrued between March 4, 2020 and June 15, 2021 during the COVID-19 pandemic emergency. The payment covered 100% of every eligible residential and commercial customer debt that was submitted by the City, and the amounts received were credited to customer accounts. The City continues to advocate for additional financial assistance for customers impacted by COVID-19 past the State's original June 15, 2021 cutoff date.

See "RISK FACTORS — Future Suspensions on Utility Shut-Offs" regarding, among other things, a Mayoral order regarding a moratorium on utility shutoffs and payment deferrals.

The following table sets forth information related to accounts receivable and number of shutoffs.

**TABLE 13**
**WATER CUSTOMER ACCOUNTS RECEIVABLE**
**AND SHUTOFFS BY FISCAL YEAR**
**Fiscal Years 2018 through 2022**
**($ Amounts in Thousands, Except in Footnotes)**

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| Water Sales Revenue | $551,275 | $525,967 | $540,988 | $578,070 | $552,962 |
| Accounts Receivable(1) | $81,812 | $101,179 | $126,628(5) | $141,632(5) | $144,997(5) |
| Accounts Receivable Over 120 Days | $4,966 | $9,810(2) | $19,220(2)(5) | $32,798(2)(5) | $26,689(2)(5) |
| % of Total Water Sales Revenues(3) | 0.90% | 1.87% | 3.55% | 5.67% | 4.83% |
| Number of Shut-offs(4) | 8,564 | -- | -- | -- | -- |

(1) Accounts Receivable are as of June 30, Fiscal Year-End, includes the receivable portion of the billed customer accounts and water delivered but not yet billed in between cycles.

(2) The suspension of shut-offs, as described in Footnote 4 below, contributes to the increase from the prior Fiscal Year.

(3) Percentage of Accounts Receivable over 120 days as compared to Water Sales Revenues total in Table 15.

(4) Shut-offs for non-payment may include multiple shut-offs associated with the same account throughout the Fiscal Year. The City suspended shut-offs beginning in March 2018 related to billing issues, and the suspension continued in Fiscal Years 2019-2022 due to the California Senate Bill 998 passage in September 2018, which applies to all water agencies, to restrict the practice of shutting off customer's water service until certain measures are implemented by the agency.

(5) Accounts receivable during the last quarter of Fiscal Year 2020 through Fiscal Year 2022 may reflect the financial impact of the COVID-19 pandemic on some Water customers. In January 2022, the City received a payment of approximately $19.7 million under the California Water Arrearage Payment Program administered by the State Water Resources Control Board to cover customer debt accrued between March 4, 2020 and June 15, 2021 resulting during the COVID-19 pandemic emergency. $19.2 million was credited to eligible residential and commercial customer accounts in Fiscal Year 2022, and the remaining $0.5 million was credited to customers in Fiscal Year 2023.

Sources: The City's Annual Comprehensive Financial Reports ("ACFR") for Fiscal Years 2018-2022, City of San Diego, with respect to "Water Sales Revenue," Public Utilities Department and Department of Finance, City of San Diego, for all other line items and footnotes.

***Rate Setting.*** Periodically, the City will enlist the services of an outside consulting firm to perform a full Cost of Service Analysis ("COS Analysis"), typically producing a rate case for two to five years. The City completed a COS Analysis in 2015 (the "2015 COS Analysis"), which produced a five-year rate case (the "2016 Rate Case"). The 2015 COS Analysis was based on comprehensive forecasted annual operation and maintenance and capital costs expenditures including the beginning of Pure Water Program for the Fiscal Years 2016 through 2020.

The City is reviewing a rate proposal for Fiscal Years 2024 and 2025, based on a COS Analysis prepared by Raftelis Financial Consultants, Inc., and released on November 10, 2022 (the "2022 COS Analysis"). The 2022 COS Analysis is a report that is based on a comprehensive forecast of maintenance and operation costs and capital expenditures over a multi-year period, including maintenance and operation costs and capital expenditures of the Pure Water Program that are consistent with the figures and projections included in this Official Statement. The 2022 COS Analysis includes a reduction in water sales based on conservation measures taken as a result of the ongoing drought and assumes no increase in local water sources through Fiscal Year 2025. The rate proposal being reviewed by the City covers both CWA pass-throughs and revenue adjustments projected for the Department's maintenance and operations costs and capital expenditures. The 2022 COS Analysis will be considered by the City Council during Fiscal Year 2023, along with a rate case based thereon (the "2022 Rate Case"). The 2022 Rate Case will allow for rate increases to support Water System operating costs, and to additionally pass through CWA water rate increases of up to 11.0% per year. Of those amounts, CWA rate increases are projected to be 2.7% in Fiscal Year 2024 and 3.3% in Fiscal Year 2025. These projections are subject to change as CWA reassesses its rate design and any additional increased costs related to water supplies. See "WATER SUPPLY – CWA Wholesale Water Rates." The City passes through only the actual CWA pass-through cost impact to its ratepayers; the CWA pass-through rate will be reduced if the rate charged by CWA is reduced. The City Council most recently approved a pass-through rate increase of 3% effective beginning January 1, 2022, and a pass-through rate increase of 2.5% effective January 1, 2023. See Table 14. Any new rates resulting from the COS and subsequent City deliberations are expected to be effective in Fiscal Year 2024. See "– Financial Projections and Modeling Assumptions," which also describes the various assumed rate increases for January 1, 2026 and thereafter for modeling purposes.

Among other things, the 2022 COS Analysis assumes a tiered rate structure (moving from a four tiered system to a three tiered system) for single-family residents based on the different peaking characteristics of customer demand. The tiers represent indoor water usage, average summer usage levels and water use above those levels. Use of such a tiered system may be impacted by the *Patz Litigation*, which, if determined in favor of the plaintiffs, could result in uniform rates for single-family residences, the underlying information for which has already been gathered in connection with the 2022 COS Analysis. Any such rate adjustments would be completed in accordance with Proposition 218 and would include charges to cover any judgments or damages based on the Water System's cash flow needs. The Water System has already accrued the financial liability related to the *Patz Litigation* on its balance sheet. See "LITIGATION – *Patz Litigation*."

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## TABLE 14
## FIVE-YEAR WATER SERVICE CHARGE HISTORY FOR SINGLE FAMILY RESIDENTIAL, MULTI-FAMILY RESIDENTIAL, NON-RESIDENTIAL, IRRIGATION, AND TEMPORARY CONSTRUCTION
## Fiscal Years 2019 through 2023

| | | Fiscal Year 2019 (effective 8/1/2018) | Fiscal Year 2020 (effective 9/1/2019) | Fiscal Year 2021 (effective 9/1/2019) | Fiscal Year 2022 (effective 1/1/2022) | Fiscal Year 2023 (effective 1/1/2023) |
|---|---|---|---|---|---|---|
| CWA pass-through costs: | | 1.60% | 1.46% | -- | 3.00% | 2.50% |
| Increase in Water System costs(1): | | 0.55% | 4.82% | -- | -- | -- |
| **Total Increase amount(2):** | | **2.15%** | **6.28%** | **--** | **3.00%** | **2.50%** |
| **BASE FEES(3)** | | | | | | |
| Meter Size: | 5/8 inch | $24.74 | $26.30 | $26.30 | $27.09 | $27.77 |
| | 3/4 inch | 24.74 | 26.30 | 26.30 | 27.09 | 27.77 |
| | 1 inch | 32.77 | 34.83 | 34.83 | 35.87 | 36.77 |
| | 1.5 inch | 51.13 | 54.34 | 54.34 | 55.97 | 57.37 |
| | 2 inch | 74.07 | 78.72 | 78.72 | 81.08 | 83.11 |
| | 3 inch | 127.98 | 136.01 | 136.01 | 140.09 | 143.59 |
| | 4 inch | 204.83 | 217.69 | 217.69 | 224.22 | 229.83 |
| | 6 inch | 395.23 | 420.05 | 420.05 | 432.65 | 443.47 |
| | 8 inch | 624.62 | 663.85 | 663.85 | 683.77 | 700.86 |
| | 10 inch | 893.02 | 949.10 | 949.10 | 977.57 | 1,002.01 |
| | 12 inch | 1,656.92 | 1,760.96 | 1,760.96 | 1,813.79 | 1,859.13 |
| | 16 inch | 2,880.76 | 3,061.65 | 3,061.65 | 3,153.50 | 3,232.34 |
| **COMMODITY CHARGE** | | | | | | |
| **Customer Type**: | | | | | | |
| Single Family Residential | | | | | | |
| Tier 1 | 0-4 HCF(4) | $4.946 | $5.257 | $5.257 | $5.415 | $5.550 |
| Tier 2 | 5-12 HCF | 5.540 | 5.888 | 5.888 | 6.065 | 6.217 |
| Tier 3 | 13-18 HCF | 7.915 | 8.412 | 8.412 | 8.664 | 8.881 |
| Tier 4 | 19+ HCF | 11.130 | 11.828 | 11.828 | 12.183 | 12.488 |
| Typical Single Family Monthly Bill(5) | | $72.22 | $76.77 | $76.77 | $79.08 | $81.06 |
| Multi-Family Residential | per HCF(6) | $5.986 | $6.362 | $6.362 | $6.553 | $6.717 |
| Non-Residential(7) | per HCF(6) | 5.841 | 6.208 | 6.208 | 6.394 | 6.554 |
| Irrigation | per HCF(6) | 6.636 | 7.053 | 7.053 | 7.265 | 7.447 |
| Temporary Construction | per HCF(6) | 6.749 | 7.173 | 7.173 | 7.388 | 7.573 |

(1) Increases in Water System costs due to CIP, implementation of Pure Water Program, and drought.
(2) Percentages reflect the total impact on Department water service charge revenue for the indicated fiscal year. Increased percentage amounts for individual customers may vary depending on the service type provided and actual volume of water delivered.
(3) The base fee is dependent on the meter size.
(4) 1 HCF (Hundred Cubic Feet) equals 748 gallons.
(5) Reflects base fee and commodity charge. Based on 9 HCF per month and an average meter size of 3/4 inch.
(6) One rate applies for all usage amounts.
(7) Non-Residential consists of Commercial and Industrial customer types.
Source: Public Utilities Department, City of San Diego.

## Revenues

The Water Utility Fund's principal source of revenues is water service charges to City residents and non-residential enterprises as shown below. The following tables set forth the historical sources of water sales revenues of the Water Utility Fund for Fiscal Years 2018 through 2022, followed by the Water Utility Fund's Statements of Revenues, Expenses, and Changes in Fund Net Assets for Fiscal Years 2018 through 2022.

**TABLE 15**
**HISTORICAL SOURCES OF WATER SALES REVENUES**
**Fiscal Years 2018 through 2022**
**($ Amounts in Thousands)**

| Sources | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| **Retail** | | | | | |
| Single Family Residential | $213,131 | $204,128 | $216,096 | $230,500 | $213,853 |
| Multi-Family Residential | 108,545 | 105,335 | 111,646 | 120,540 | 113,276 |
| Non-Residential[1] | 127,011 | 124,889 | 117,523 | 120,660 | 120,571 |
| Irrigation | 67,858 | 57,628 | 59,506 | 70,413 | 67,475 |
| Recycled | 10,574 | 10,506 | 11,231 | 11,698 | 12,140 |
| Untreated[2] | 10 | 10 | 1,878 | 10 | 11 |
| **Wholesale to Other Retailers** | | | | | |
| Treated[3] | 19,614 | 19,155 | 19,096 | 19,894 | 20,929 |
| Recycled | 4,532 | 4,316 | 4,012 | 4,355 | 4,707 |
| **Total** | **$551,275** | **$525,967** | **$540,988** | **$578,070** | **$552,962**[4] |

(1) Non-Residential consists of Commercial, Industrial, Outside City and Temporary Construction customer types.
(2) Sales of Untreated water in 2020 reflect a one-time sale of Untreated water to the Helix Water District pursuant to an agreement to draft water from El Capitan Reservoir for the purpose of maintaining height restrictions.
(3) Primarily reflects wholesale revenues from Cal-American Water Company.
(4) The total does not include $19.2 million in revenues that was reclassified as Federal Grant Assistance in Fiscal Year 2022 resulting from the COVID-19 relief fund payment received under the California Water Arrearage Payment Program (the remaining $0.5 million will be recorded in Fiscal Year 2023). See Footnote 13 of Table 17 for additional information.

Source: Department of Finance, City of San Diego.

# TABLE 16
# STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION[1]
# FOR THE WATER UTILITY FUND
# ($ Amounts in Thousands, Except in Footnotes)

| | 2018 | 2019 [3] | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| **OPERATING REVENUES** | | | | | |
| Sales of Water | $ 551,275 | $ 525,967 | $ 540,988 | $ 578,070 | $ 552,962[13] |
| Charges for Services | 5,218 | 4,079 | 3,690 | 4,150 | 3,692 |
| Revenue from Use of Property | 6,104 | 7,271 | 5,899 | 6,186 | --[9] |
| Other | 6,927 | 1,811 | 1,637 | 3,370 | 2,982 |
| **TOTAL OPERATING REVENUES** | $ 569,524 | $ 539,128 | $ 552,214 | $ 591,776 | $ 559,636 |
| **OPERATING EXPENSES** | | | | | |
| Salary and Benefits | $ 89,891 | $ 93,729[4] | $ 82,813[4] | $ 92,280 | $ 80,695[10] |
| Supplies | 211,688 | 208,780 | 216,811 | 214,481 | 236,342[11] |
| Contracts | 108,325 | 108,369 | 117,018 | 161,709[5] | 171,028 [5] |
| Information Technology | 5,658 | 5,596 | 7,911 | 9,030 | 10,493 |
| Energy and Utility | 13,535 | 9,093 | 8,572 | 10,773 | 10,902 |
| Other Expenses | 4,334 | 3,039 | 3,543 | 3,691 | 3,180 |
| Depreciation | 57,007 | 57,268 | 59,449 | 62,373 | 66,725 |
| **TOTAL OPERATING EXPENSES** | $ 490,438 | $ 485,874 | $ 496,117 | $ 554,337 | $ 579,365 |
| **OPERATING INCOME (LOSS)** | $ 79,086 | $ 53,254 | $ 56,097 | $ 37,439 | $ (19,729) |
| **NONOPERATING REVENUES (EXPENSES)** | | | | | |
| Earnings on Investments | $2,085 | $ 9,240 | $ 9,057 | $ 1,839 | $ (7,121)[12] |
| Federal Grant Assistance | 3,126 | 75 | 6,819 | 4 | 21,015[13] |
| Leases from Amortization of Deferred Inflow | -- | -- | -- | -- | 7,273[14] |
| Other Agency Grant Assistance | 265 | 441 | 564 | 15,406[6] | (5,344) |
| Gain (Loss) on Sale/Retirement of Capital Assets | (15,327) | 7,477 | (918) | 30,509[7] | (375) |
| Debt Service Interest Expense | (25,512) | (35,964) | (38,704) | (42,478) | (41,805) |
| Other | 4,480 | 319 | (18) | 22,309[8] | 40,942[15] |
| **TOTAL NON OPERATING REVENUES (EXPENSES)** | $ (30,883) | $ (18,412) | $ (23,200) | $ 27,589 | $ 14,585 |
| **INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS** | $ 48,203 | $ 34,842 | $ 32,897 | $ 65,028 | $ (5,144) |
| Capital Contributions[2] | $ 42,633 | $ 13,470 | $ 15,005 | $ 32,486 | $ 36,603 |
| Transfers from Other Funds | -- | 181 | 393 | -- | -- |
| Transfers from Governmental Funds | 495 | -- | 407 | 313 | -- |
| Transfers to Other Funds | (2,228) | (312) | -- | (180) | (2,835) |
| Transfer to Governmental Funds | (14) | (14) | -- | -- | -- |
| Extraordinary Loss | -- | -- | -- | -- | (10,705)[16] |
| **CHANGE IN NET POSITION** | $ 89,089 | $ 48,167 | $ 48,702 | $ 97,647 | $ 17,919 |
| Net Position at Beginning of Year | $1,967,063 | $2,056,152 | $2,104,319 | $2,153,021 | $2,250,668 |
| **NET POSITION AT END OF YEAR** | $2,056,152 | $2,104,319 | $2,153,201 | $2,250,668 | $2,268,587 |

(1) Terms used in this table are derived from the City's ACFRs for the indicated year. Certain terms included in this table do not have the meanings ascribed to them in the Master Installment Purchase Agreement. Also, amounts included in this table reflect the application of generally accepted accounting principles ("GAAP") and, as such, do not match tables in this Official Statement that were not prepared in accordance with GAAP.
(2) Capital contributions include capital grants, donated/found assets, and Capacity Charges revenues.
(3) In Fiscal Year 2019, operating income decreased from prior year due to decreases in sales of water resulting from the extended rainy season and conservation efforts.
(4) After completion of Fiscal Year 2019, a reallocation of Salary and Benefits was made between employees of the Water Utility Fund and the Sewer Revenue Fund of the Public Utilities Department. This resulted in a $6.5 million correcting adjustment in Fiscal Year 2020.
(5) The increase in contracts in Fiscal Years 2021 and 2022 is primarily due to the accrual of liability claims, including the *Patz Litigation* (as herein defined), which is currently under appeal. Following the trial court ruling against the City in September 2021 and subsequent remedies proceeding in March 2022, the City recorded $39.9 million as an expense in Fiscal Year 2021 to reflect the accrual of contingent settlement liability, and subsequently recorded an additional $48.8 million in Fiscal Year 2022 for a total of $88.7 million. These combined amounts represent the total estimated settlement amount plus a monthly charge for each month through Fiscal Year 2022 that the City continued to use its tiered rate structure. See "LITIGATION – *Patz Litigation*."
(6) The increase on Other Agency Grant Assistance is primarily due to accrual of grant revenue from the State Water Resources Control Board from the Proposition 68 grant program.
(7) The gain in Fiscal Year 2021 is primarily due to the receipt of Water Utility Fund's share of proceeds from the sale of Qualcomm Stadium to San Diego State University.
(8) The increase in Fiscal Year 2021 Other non-operating revenues primarily represents the refund from MWD as a result of the CWA's decade -long rate case litigation in state Superior Court seeking to compel MWD to set legal rates and repay overcharges.
(9) Revenue from Use of Property was reclassified in Fiscal Year 2022 to be reported with Leases from Amortization of Deferred Inflow as non-operating revenue.
(10) The decrease in Fiscal Year 2022 Salary and Benefits expense is primarily due to a decrease in pension expense as a result of recognition of investment gains and losses.
(11) The increase in Fiscal Year 2022 Supplies expense is primarily due to an increase in water purchases.
(12) Investment Income decreased in Fiscal Year 2022 primarily due to a $9.0 million unrealized loss on pooled investments.
(13) The increase in Fiscal Year 2022 Federal Grant Assistance is mainly due to a $19.2 million COVID-19 relief fund payment received under the California Water Arrearage Payment Program administered by the State Water Resources Control Board from federal funding to cover customer debt accrued between March 4, 2020 and June 15, 2021 resulting during the COVID-19 pandemic emergency. Sales of Water was correspondingly reduced by $19.2 million in Fiscal Year 2022 to offset the payment in the Federal Grant Assistance line. The remaining $0.5 million from the relief payment is recorded in Fiscal Year 2023.
(14) The presentation of leases was changed in Fiscal Year 2022 with the implementation of GASB 87.
(15) The increase in Fiscal Year 2022 non-operating Other revenue is primarily due to receipt of $25.0 million from the State appropriation to assist with the Pure Water Program Phase 1 project.
(16) Extraordinary Loss reflects the liability recorded for one-time costs associated with the unwinding of Proposition B.
Source: The City's ACFRs for Fiscal Years 2018 - 2022, with footnotes prepared by the Department of Finance, City of San Diego.

## Management's Discussion and Analysis

The following discussion relates to certain items set forth in Table 16. Some of the following information is provided in connection with the financial condition and results of operations of the Water Utility Fund for Fiscal Year 2022.

***Operating Revenues***. Total operating revenues for Fiscal Year 2022 were $559.6 million, which represented a decrease of $32.1 million from the previous Fiscal Year. This was primarily due to a decrease in water sales revenue due to conservation efforts by rate payers and the reclassification of the COVID-19 relief federal grant from the California Water Arrearage Payment Program which was reported as Non-Operating Federal Grant Assistance instead of operating revenues.

***Operating Expenses***. Total operating expenses for Fiscal Year 2022 were $579.4 million, an increase of $25.0 million from the previous Fiscal Year. This is due to an increase in water purchases and the settlement claim related to the *Patz Litigation*. See "LITIGATION – *Patz Litigation*."

***Non-operating Revenues (Expenses)***. Non-operating revenues for Fiscal Year 2022 decreased by $13.0 million from non-operating transactions in Fiscal Year 2021. This was due to the change from a net gain in Fiscal Year 2021 to a net loss on the sale/retirement of capital assets in Fiscal Year 2022.

***Contributions and Transfers***. Capital contributions for Fiscal Year 2022 increased by $4.1 million from Fiscal Year 2021 due to higher Capacity Charge revenues as a result of development permits pulled during the year and an increase in donated/found assets, which vary year to year. Transfers Out was also higher in Fiscal Year 2022 from Fiscal Year 2021 by $2.7 million and this is due mainly to additional transfers that were needed to purchase additional Water inventory in the Department's inventory fund.

**Water Utility Fund Reserves**

The City maintains four reserves within the Water Utility Fund: the Emergency Operating Reserve, the Secondary Purchase Reserve, the Rate Stabilization Fund Reserve ("Rate Stabilization Fund Reserve"), and the Emergency Capital Reserve. The Department operates these reserve funds in accordance with the City's reserve policy (the "City Reserve Policy"). The City's Reserve Policy is reviewed biennially. Changes are approved by the City Council and incorporated into City Council Policy. The most recent updates to the City Reserve Policy were approved by the City Council in December 2022.While the Department projects transfers to and from the Rate Stabilization Reserve Fund to smooth the level of rate adjustments over Fiscal Years 2023-2028, as described below, it anticipates meeting all reserve requirements through that period. See "– Rate Setting" and "– Financial Projections and Modeling" for more information.

***Emergency Operating Reserve***. The Emergency Operating Reserve is intended to be used in the event of a catastrophe that prevents the Water System from operating in its normal course of business. The reserve level is defined as the number of days of operation it could support in the event of a major disruption to the Water System. It is calculated based on the annual operating budget for the Fiscal Year, less the budgeted operating contingency and the budget for water purchases and debt service. The Emergency Operating Reserve target is equivalent to 70 days of operation. This reserve level target of 70 days recognizes that the Water System has a large diversified customer base, a steady and reliable demand for services, and other reserves available for specific needs. Use of the Emergency Operating Reserve is restricted to emergency situations, and City Council approval is required to appropriate these reserves. Any request to utilize the Emergency Operating Reserve will include a plan and timeline for replenishment, which may be in conjunction with the City Council authorization of a future COS Analysis and rate adjustment. As of June 30, 2022, Emergency Operating Reserve was at the target level of $44.9 million.

***Secondary Purchase Reserve***. The Secondary Purchase Reserve was established and is maintained pursuant to the Master Installment Purchase Agreement to purchase additional water supply in case of a major drought or unforeseen emergency that diminishes the City's normal supply. The size of the reserve is equal to 6% of the annual water purchase budget (including commodity charge and fixed costs). City Council action is required in order to appropriate this reserve as well. As of June 30, 2022, there was $16.6 million in the Secondary Purchase Reserve, which is funded at the target amount.

***Rate Stabilization Fund Reserve***. The Rate Stabilization Fund Reserve was established and is maintained pursuant to the Master Installment Purchase Agreement. Transfers in and out of this fund serve as a revolving mechanism to mitigate potential fluctuations in the rates for the Water System operations, and maintain stable debt service coverage ratios for the Outstanding Obligations. The permitted uses of the Rate Stabilization Fund Reserve are limited to the Maintenance and Operation Costs of the Water System. Funds transferred to the Rate Stabilization Fund Reserve from system revenues are deducted from the amount of system revenues for purposes of calculating debt service coverage. The City Reserve Policy establishes a baseline target for the Rate Stabilization Fund Reserve in an amount equal to 5% of the prior Fiscal Year

Water System total operating revenues. The funding level in the Rate Stabilization Fund Reserve can go up or down depending on year to year changes in the Water System's operating revenues and expenditures.

As of June 30, 2022, the $114 million balance in the Rate Stabilization Fund Reserve exceeded the Department's reserve target by approximately $84 million. The Department expects to draw $21 million from the Rate Stabilization Reserve Fund during Fiscal Year 2023 to mitigate rate increases and maintain debt service coverage ratios that meet or exceed covenanted ratios. Table 18 illustrates the historical use of the Rate Stabilization Fund Reserve, and Table 19 illustrates the projected utilization in future years. Projected deposits are discretionary and could be modified as needed for any reason.

***Emergency Capital Reserve***. The Emergency Capital Reserve is intended to be used for emergency capital needs. The reserve is budgeted annually at $5.0 million in the Water System CIP budget. If the reserve is used to fund unforeseen emergency conditions resulting in the need to immediately repair or replace existing assets, approval from the Chief Financial Officer or the Chief Operating Officer is required per City Reserve Policy. As of June 30, 2022, there was $5.0 million in the Emergency Capital Reserve.

In addition to these four reserves, the Water System has contributed to the citywide Pension Payment Stabilization Reserve which was established in 2016 to mitigate any unanticipated increases in the annual pension payment, also known as the Actuarially Determined Contribution ("ADC"). For more information, see "– San Diego City Employees' Retirement System – Water Utility Fund Contribution."

The following table presents the Water Utility Fund's reserve amounts, cash and investments, and days of cash on hand as of June 30 for the Fiscal Years 2018 through 2022.

## TABLE 17
## RESERVES AND CASH AND INVESTMENTS IN WATER UTILITY FUND
## Fiscal Years 2018 through 2022
## ($ Amounts in Thousands, Except in Footnotes)

| | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|
| **Reserve Funds**[1] | | | | | |
| Emergency Operating Reserve | $ 40,108 | $ 40,108 | $ 40,777 | $ 40,777 | $ 44,860 |
| Secondary Purchase Reserve | 15,229 | 16,388 | 16,388 | 16,388 | 16,628 |
| Rate Stabilization Fund Reserve | 70,117 | 70,117 | 80,117 | 132,117[4] | 114,117[5] |
| Emergency Capital Reserve | 5,000 | 5,000 | 5,000 | 5,000 | 5,000 |
| **Total Reserve Funds** | $ 130,454 | $ 131,613 | $ 142,282 | $ 194,282 | $ 180,605 |
| **Cash and Investments in Water Utility Fund**[2] | $ 260,037 | $ 274,871 | $ 291,422 | $ 385,042 | $ 411,382 |
| **Days of Cash on Hand**[3] | 219 | 234 | 244 | 286 | 293 |

(1) Established in accordance with City Reserve Policy, for Fiscal Year 2022, the Operating Reserve, Secondary Purchase Reserve and Capital Reserve amounts were at target levels per the City Reserve Policy, and the Rate Stabilization Fund amount exceeded target levels.

(2) Cash and Investments (which includes the Reserve totals above) consists of cash on hand and investments held in the City Treasurer's Pooled Investment Fund, and does not include Restricted Cash and Investments.

(3) Days of cash on hand is calculated by Cash and Investments / (Operating Expenses less Depreciation / 365 days).

(4) In Fiscal Year 2021, $52 million was transferred to the Rate Stabilization Fund from several one-time revenue sources, including the sale of the stadium site, one-time grant funding, and legal settlements from the MWD. These funds are projected to be drawn in future Fiscal Years to offset or mitigate future rate increases.

(5) In Fiscal Year 2022, $18 million was transferred from the Rate Stabilization Fund to cover for the accrual of liability claims, including the *Patz Litigation*. See "LITIGATION."

Sources for Reserves, Days of Cash on Hand, and footnotes: Public Utilities Department and Department of Finance, City of San Diego.
Source for Cash and Investments: The City's ACFRs for Fiscal Years 2018-2022, City of San Diego.

Unaudited Cash and Investments within the Water Utility Fund as of December 31, 2021 and December 31, 2022 are $336.3 million, and $316.4 million, respectively (unrealized gains/losses not included). This results in an estimated 239 days of cash on hand as of December 31, 2021 and an estimated 230 days of cash on hand as of December 31, 2022.

### Debt Service Coverage

The following table sets forth the historical debt service coverage for the Water Utility Fund for Fiscal Years 2018 through 2022.

# TABLE 18
# CALCULATION OF HISTORICAL DEBT SERVICE COVERAGE
## Fiscal Years 2018 through 2022
## ($ Amounts in Thousands, Except in Footnotes)
## (Unaudited)

| | | 2018 | 2019 | 2020 | 2021[(8)] | 2022[(9)] |
|---|---|---|---|---|---|---|
| All System Revenues prior to Rate Stabilization Fund Reserve transfers[(1)] | | $ 597,608 | $ 558,349 | $ 583,989 | $ 681,839 | $ 634,299 |
| Transfers (to)/from Rate Stabilization Fund Reserve | | (8,000) | -- | (10,000) | (52,000) | 18,000 |
| Total System Revenues[(1)] | | $ 589,608 | $ 558,349 | $ 573,989 | $ 629,839 | $ 652,299 |
| **Total Maintenance & Operation Costs[(2)]** | | **(435,673)** | **(428,932)** | **($436,668)** | **($492,144)** | **($515,475)** |
| Net System Revenues absent transfers (to)/from the Rate Stabilization Fund Reserve | A | $ 161,935 | $ 129,417 | $ 147,321 | $ 189,695 | 118,824 |
| **Net System Revenues** | B | **$153,935** | **$ 129,417** | **$ 137,321** | **$ 137,695** | **$136,824** |
| Less: Interest Earnings on Reserve Fund[(3)] | | (35) | (73) | (40) | (1) | (2) |
| Adjusted Net System Revenues | C | $153,900 | $ 129,344 | $137,281 | $137,694 | $136,822 |
| **Senior Obligations[(4)]** | | | | | | |
| Total Senior Debt Service | | $ 4,259 | $ 4,487 | $ 5,626 | $ 28,462 | $ 28,507 |
| Less: Interest Earnings on Reserve Fund[(3)] | | (35) | (73) | (40) | (1) | (2) |
| Adjusted Senior Debt Service | D | $ 4,224 | $ 4,414 | $ 5,586 | $ 28,461 | $ 28,505 |
| **Adjusted Senior Debt Service Coverage[(5)(6)]** | C/D | **36.43x** | **29.30x** | **24.58x** | **4.84x** | **4.80x** |
| **All Obligations[(7)]** | | | | | | |
| Total Debt Service | E | $ 65,613 | $ 68,136 | $ 83,199 | $ 93,547 | $ 93,839 |
| Aggregate Debt Service Coverage absent transfers (to)/from the Rate Stabilization Fund Reserve | A/E | 2.47x | 1.90x | 1.77x | 2.03x | 1.27x |
| **Aggregate Debt Service Coverage[(6)]** | B/E | **2.35x** | **1.90x** | **1.65x** | **1.47x** | **1.46x** |

(1) "System Revenues," as defined in the Master Installment Purchase Agreement, includes accrual based operating revenues and non-operating revenues (*i.e.*, interest earnings, federal and other agency grant assistance, and other income) as well as transfers from governmental and other funds, and the cash-based components of capital contributions and gain/loss on sale/retirement of capital assets. Pursuant to the Master Installment Purchase Agreement, there shall be deducted from "System Revenues" any amounts transferred into the Rate Stabilization Fund Reserve and there shall be added to "System Revenues" any amounts transferred out of such Rate Stabilization Fund Reserve. Amounts in the Rate Stabilization Fund Reserve are not included in the calculation of debt service coverage for purposes of the Master Installment Purchase Agreement. The amounts reflected as "All Revenues" are revenues of the Water System prior to any such transfer and is provided for information only.

(2) Amounts under Total Maintenance and Operation Costs, in accordance with the Master Installment Purchase Agreement, includes accrual based operating expenses, transfers to governmental and other funds, and excludes depreciation.

(3) Interest earnings on the Senior Debt Service Reserve Fund are netted out of both System Revenues and Total Debt Service to calculate Senior Debt Service Coverage Ratios, but are not netted out for Aggregate Debt Service Coverage Ratios.

(4) Senior Obligations consist of Senior Bonds and Senior SRF Loans.

(5) The Adjusted Debt Service Coverage decreased in Fiscal Year 2021 due to the issuance of the 2020 Bonds.

(6) Pursuant to Section 6.08(a) of the Master Installment Purchase Agreement, the City shall fix, prescribe and collect rates and charges for the Water Service which will be at least sufficient to yield the greater of (1) Net System Revenues sufficient to pay during each Fiscal Year all Obligations payable in such Fiscal Year or (2) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service for such Fiscal Year.

(7) All Obligations include debt service on Outstanding Senior Obligations and the Outstanding Subordinated Obligations, including interest paid on Outstanding Commercial Paper Notes.

(8) System Revenues in Fiscal Year 2021 includes the impact of several one-time revenue sources, including the sale of the stadium site, one-time grant funding, and legal settlements from the MWD, which were used in the $52 million transfer to the Rate Stabilization Fund. The total Maintenance and Operation Costs in Fiscal Year 2021 includes the accrued liability of the *Patz Litigation*.

(9) System Revenues in Fiscal Year 2022 includes the impact of several one-time revenue sources, including funding from the State appropriation for Pure Water Program Phase 1 project, one-time COVID-19 grant assistance, and legal settlements from the MWD. The total Maintenance and Operation Costs in Fiscal Year 2022 includes an increase in the accrued liability of the *Patz Litigation*.

Source of Footnotes: Department of Finance and Public Utilities Department, City of San Diego.

Sources for table: Statistical Section (Unaudited) of the City's ACFRs for Fiscal Years 2018-2022 (excluding data under the headings "Net System Revenues absent transfers (to)/from the Rate Stabilization Fund Reserve" and "Aggregate Debt Service Coverage absent transfers (to)/from the Rate Stabilization Fund Reserve"); Department of Finance for data under the headings "Net System Revenues absent transfers (to)/from the Rate Stabilization Fund" and "Aggregate Debt Service Coverage prior to transfers (to)/from the Rate Stabilization Fund Reserve."

**Financial Projections and Modeling Assumptions**

Table 19 below sets forth the financial forecast for Fiscal Years 2023 through 2028. See "INTRODUCTION – Forward-Looking Statements." The financial forecast utilizes base forecasts developed for the City's mid-year projections for Fiscal Year 2023, which affects assumptions in subsequent years in the forecast period. Net System Revenues are projected to increase primarily as a result of projected rate increases. The level of percentage increases in rate revenue are consistent with the City's pending 2022 COS Analysis. In developing the financial forecast, the City has made several assumptions including those described below.

*System Revenues*. The primary component of operating revenue is the retail sales of water. Water sales revenues are derived from the rates paid by customers for water service and are based on the number of customer accounts and projected usage. The City's projections assume a 0.25% increase in the number of accounts and a 7% decrease in sales volume in Fiscal Year 2023 compared to Fiscal Year 2022 levels, and that the number of accounts and sales volume will remain flat for the rest of the forecast period. Usage projections include the assumption that current rates effective January 1, 2023 will be increased 9.3% during Fiscal Year 2024, 7.6% during Fiscal Year 2025, 9.8% during Fiscal Year 2026, 8.9% during Fiscal Year 2027 and 8.2% during Fiscal Year 2028 to cover both wholesale water cost increases and Departmental needs. The assumed percentage rate increases used for Fiscal Years 2024 and 2025 are based on the 2022 COS Analysis, which is subject to change based on City Council consideration of the 2022 Rate Case. Assumed water sales have been lowered slightly due to sales trends in 2023 being under prior projections as a result of larger conservation savings and more wet weather and cooler than average temperatures. The assumptions for Fiscal Years 2026 through 2028 are based on estimated revenue requirements prepared by the City. See "– Rate Setting" for more information on the rate setting process. The City has historically increased water rates over time to adjust to increases in the cost of water purchased from CWA, which increases are generally based on the costs for the infrastructure, maintenance and operation of CWA's water supply system and the cost CWA pays to purchase water. The projections do not include any additional refunds of water transportation charges previously paid to CWA related to litigation between CWA and MWD. See "WATER SUPPLY" for information on water supply costs. The assumed rates are also intended to maintain the Water Utility's core financial metrics of cash balances, reserves, and financial debt service coverage ratios. These rate increase assumptions are subject to change based on the finalization of the 2022 and future COS Analysis and actual rate increases may vary. Actual rate increases that are lower than assumed rate increases would result in less favorable financial metrics. Likewise, actual rate increases that are higher than assumed increases would result in more favorable financial metrics in those years. In order to achieve desired financial results, the Department may exercise discretion in reevaluating projected capital expenditures and discretionary maintenance and operation costs.

Actual retail sales revenues may vary as a result of higher or lower precipitation amounts and customer demands. The Department has ongoing quarterly budget review and reporting that assists in monitoring water demand and rate revenue. This also allows for a faster budgetary response to mitigate any negative financial impacts of the continuing drought. Interest earnings from the cash balances of substantially all funds are pooled and invested by the City Treasurer for the purpose of increasing interest earnings through investment activities. The assumptions for interest earnings attributable to the Water Utility Fund are based on an assumed interest rate of 2% through Fiscal Year 2027 and 1.7% thereafter.

*Capacity Charges*. Water capacity fees are collected for the maintenance or operation of existing water facilities, as well as future expansion, and are calculated by EDUs. Due to the passage of Assembly Bill 2536, which changes the requirement for implementing and adjusting capacity fees, no proposal to change the fees was included in the City's 2022 COS Analysis. The City anticipates increasing the fees during the forecast period, but has not included fee increases in its projections. If fees are increased during the forecast period, the City expects this would increase total revenue as set forth in its projections. The City's projections are based on the average of capacity fee revenue received over the past five years and are projected to average $14.4 million during most of the projection period.

*Transfers To and From Reserves*. Transfers to and from reserves represent the aggregate activity of contributions and use of the reserves for the Water Utility Fund. The projections include funding reserves in accordance with City policies and utilizing reserves in the Rate Stabilization Fund that are in excess of the City's policy target to reduce year to year variances in Senior Debt Service Coverage and Subordinate Debt Service Coverage and to moderate abrupt swings in customer rates from year to year. The City's projections include a net transfer from reserves based on the accumulation of one-time revenues from legal settlements and land sales, and contributions back to reserves to begin in Fiscal Years 2027 and 2028.

*Maintenance and Operations*. The City projects Maintenance and Operation Costs of the Water System through a process that begins with the City's budget for each Fiscal Year. The City then modifies these levels of costs to account for prior and current year trends identified after the costs set forth in the budget have been finalized. The City then develops a baseline projection that accounts for one-time changes in the current budget projections and assumes growth in key categories such as supplies, contracts, energy and personnel costs based on past growth and projected trends. Adjustments are made to the projections to add known programmatic changes into the baseline forecast, such as the full commissioning of the Pure Water Program Phase 1 in Fiscal Year 2027, increases in chemicals used in the treatment process, increases in energy rates and assumed increases in salaries and benefits for certain represented employees. This process is described in the City's "Public Utilities Department Five-Year Financial Outlook," which is released to the public as part of the City's budget process in the fall and published on the City's website. The Public Utilities Five-Year Financial Outlook is not incorporated by reference into this Official Statement.

The Water Utility's largest expense is the purchase of imported water from its wholesaler, the CWA. The City expects, on average, to purchase 141,000 AF of water each year during the projection period. This average is expected to decrease from past averages as local water is produced due to the implementation of the Pure Water Program and accounts for assumed conservation increases by the City's water customers. However, the cost for water purchases is expected to rise due to increases in the wholesale cost of water projected by the CWA. CWA prepares both a high and low level rate increase scenario as part of its long-range financial plan and the City uses the median of those scenarios for its projections. This assumption may over- or under-predict future rates based on changes in CWA policy or other outside forces such as drought or need for additional capital improvements.

The achievement of certain results or other expectations contained in Table 19 involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements reflected in Table 19 to be materially different from any future results, performance or achievements expressed or implied by such Table. Although, in the opinion of the City, such projections are reasonable, there can be no assurance that any or all of such projections will be realized or predictive of future results.

Projected Debt Service costs increase during the projection period reflect the anticipated additional Obligations to support Water System CIP for Pure Water and Baseline CIP projects. In Fiscal Year 2023 and future years, this includes the anticipated issuance of 2023A Bonds, the issuance of a combination of Commercial Paper Notes and future bonds, the WIFIA Loans, the SRF Loans, and the incurrence of additional loans, as described herein. The City projects the issuance of $340 million of revenue bonds in Fiscal Year 2026, which includes $250 million to refund commercial paper notes and $90 million in new capital expenses. See also "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Program Financing Plan" and "– Anticipated Additional Obligations." For a discussion of the Water System CIP and certain projected costs thereof, see "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM." For other anticipated sources of funding, such as cash and grants, see Table 11.

# TABLE 19
# PROJECTED NET SYSTEM REVENUES AND DEBT SERVICE COVERAGE
## Fiscal Years 2023 through 2028
## Projections as of November 2022
## ($ Amounts in Thousands)

| DESCRIPTION | Fiscal Year 2023 Estimated[1] | Fiscal Year 2024 Projected | Fiscal Year 2025 Projected | Fiscal Year 2026 Projected | Fiscal Year 2027 Projected | Fiscal Year 2028 Projected |
|---|---|---|---|---|---|---|
| **System Revenues** | | | | | | |
| Operating Revenues[2] | $598,381 | $646,704 | $697,460 | $753,634 | $824,094 | $889,047 |
| Interest Income on Operating Funds | 7,683 | 6,346 | 4,861 | 4,900 | 4,605 | 3,295 |
| Interest Earnings on Debt Service Reserve Funds[3] | 31 | 31 | 31 | 31 | 31 | 31 |
| Other Non-Operating Revenues | 30,915 | 31,005 | 31,511 | 31,477 | 31,331 | 31,440 |
| Capacity Charge Revenue[4] | 15,950 | 15,950 | 15,950 | 15,950 | 15,950 | 15,950 |
| Grant Proceeds | 1,756 | 1,756 | 1,756 | 1,756 | 1,756 | 1,756 |
| Transfers (to)/from Rate Stabilization Reserve[5] | 8,000 | 33,000 | 21,000 | 31,000 | (16,600) | (6,000) |
| Transfers (to)/from Secondary Purchase Reserve[6] | -- | (1,724) | (45) | (1,236) | -- | -- |
| Total System Revenues | $662,716 | $733,068 | $772,524 | $837,512 | $861,167 | $935,518 |
| **Maintenance and Operation Costs** | | | | | | |
| Water Purchases[7] | $259,084 | $307,206 | $307,950 | $328,550 | $315,607 | $314,562 |
| Water System Expenses[8] | 244,522 | 256,886 | 277,391 | 278,276 | 288,226 | 288,882 |
| Pure Water Program Expenses[9] | 15,119 | 19,306 | 20,252 | 39,011 | 41,381 | 41,234 |
| Total Maintenance and Operation Costs | $518,724 | $583,398 | $605,593 | $645,837 | $645,214 | $644,678 |
| **Net System Revenues** | $143,992 | $149,670 | $166,931 | $191,675 | $215,952 | $290,840 |
| **Senior Debt Service Coverage** | | | | | | |
| Adjusted Net System Revenues[10] | $143,961 | $149,639 | $166,900 | $191,644 | $215,921 | $290,809 |
| Adjusted Senior Debt Service[11][12] | 33,321 | 44,790 | 46,946 | 54,902 | 60,871 | 63,903 |
| Senior Debt Service Coverage[11] | 4.32x | 3.34x | 3.56x | 3.49x | 3.55x | 4.55x |
| **Aggregate Debt Service Coverage** | | | | | | |
| Net System Revenues | $143,992 | $149,670 | $166,931 | $191,675 | $215,952 | $290,840 |
| Senior Debt Service[12] | 33,352 | 44,820 | 46,977 | 54,933 | 60,902 | 63,934 |
| Subordinate Debt Service[12] | 65,254 | 66,463 | 76,949 | 84,814 | 91,638 | 94,618 |
| Aggregate Debt Service Coverage[12] | 1.46x | 1.34x | 1.35x | 1.37x | 1.42x | 1.83x |

(1) Fiscal Year 2023 estimates are based on projections through year-end as of November 10, 2022.

(2) Includes City Council approved rate increase through Fiscal Year 2023, and assumes the following rate increases not yet approved by City Council: Fiscal Year 2024, 9.3%, which is comprised of 2.7% estimated CWA pass-through costs and 6.6% for Water System needs; Fiscal Year 2025, 7.6%, which is comprised of 3.3% estimated CWA pass-through costs and 4.3% for Water System needs; Fiscal Year 2026 9.8%, which consists of 3.5% CWA pass-through costs and 6.3% for Water System needs; Fiscal Year 2027, 8.9%, which consists of 2.9% CWA pass-through costs and 6.0% for Water System needs; and 8.2% for Fiscal Year 2028, which is comprised of 2.2% CWA pass-through and 6.0% for Water System needs. Projected rate increases for Fiscal Years 2024 through 2025 are subject to change based on City Council approval of the 2022 Rate Case. Fiscal Years 2026 through 2028 require completion of a COS Analysis and City Council approval. Debt service coverage in Fiscal Years 2024 through 2028 will be lower than projected if the actual approved rate increases are lower than current projections. See "– Establishment of Water Service Charges." Increased revenue is required to support Baseline CIP projects and additional cash needed in the early stages of the City's planned dam projects and Phase 2 of the Pure Water Program, before long-term financing is secured.

(3) Includes interest earnings on reserve funds for Senior Obligations.

(4) Capacity Charge revenue is based on conservative projections on building permits.

(5) The projected Rate Stabilization Fund Reserve transfers in Fiscal Years 2023 through 2026 are the use of one-time revenues from the sale of water system land and one-time legal settlements received in prior fiscal years. See "– Water Utility Fund Reserves, Rate Stabilization Fund Reserve" for a discussion of anticipated utilization in future years. The Department has the discretion to modify this amount as needed.

(6) Reflects projected transfers to Secondary Purchase Reserve to meet reserve level requirements. See "SECURITY AND SOURCES OF PAYMENT – Pledge of Net System Revenues."

(7) Water purchase projections include the Department's projections for CWA rate increase. See "– Establishment of Water Service Charges." The overall level of water purchases is assumed to be lower due to the Pure Water Program.

(8) Includes costs of maintenance and operations, administration, pension benefits and retiree health costs, and the projected cost impacts from the labor agreements with employee bargaining organizations through Fiscal Year 2028. See "– Labor Relations" below. This does not include Pure Water Program costs, which are reflected below.

(9) Includes pre-design and planning costs for Phase 2 of the Pure Water Program and the ramp up of operating costs for Phase 1 starting in Fiscal Year 2026. Full operating costs for Phase 1 upon final commissioning of the project in Fiscal Year 2027. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Pure Water Program."

(10) Adjusted Net System Revenues is Net System Revenues less earnings from investments in the Common Senior Debt Service Reserve Fund.

(11) Adjusted Senior Debt Service is the Senior Debt Service less earnings from investments in the Common Senior Debt Service Reserve Fund.

(12) Reflects scheduled debt service on Outstanding Obligations (including the 2023A Bonds debt service on the senior lien); projected debt service on additional Senior Obligations and Subordinate Obligations the City assumes will be issued, projected WIFIA Loans debt service beginning in Fiscal Year 2025, and estimated interest payments for Commercial Paper Notes, and additional SRF Loans the City expects to receive from the State Water Resources Control Board.
(13) The Senior Debt Service Coverage Ratio is expected to decrease in Fiscal Year 2024 due to the addition of 2023A Bonds debt service.
Source: Water Rate Model and COS Analysis, Public Utilities Department, City of San Diego.

The ongoing CIP and operational expenditures are rate dependent, including, particularly, the Water Utility Fund's share of Pure Water Program expenditures in Fiscal Years 2023 through 2026. The City anticipates that additional rate capacity is necessary after Fiscal Year 2025. In November 2022, the City released the 2022 COS Analysis to prepare a new rate case for recommended rate adjustments for the Water Utility Fund for Fiscal Years 2024 and 2025. See "– Rate Setting" for more information.

The achievement of certain results or other expectations contained in Table 19 involve known and unknown risks, uncertainties, and other factors that may cause actual results, performance, or achievements reflected in Table 19 to be materially different from any future results, performance, or achievements expressed or implied in such Table 19. Although, in the opinion of the Department, such projections are reasonable, there can be no assurance that any or all of such projections will be realized or predictive of future results. See also "INTRODUCTION – Forward-Looking Statements."

**Outstanding Indebtedness**

As of March 1, 2023, Senior Obligations consisted of $68,407,692 principal amount of SRF Loans and $297,700,000 Outstanding Senior Bonds. As of March 1, 2023, there was $612,460,000 in Outstanding Subordinated Bonds, $145,218,742 drawn from the WIFIA Loans, and $225,930,000 in Outstanding Subordinated Commercial Paper Notes that are payable from Net System Revenues junior to the 2023 Installment Payments. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2023A BONDS – Senior Obligations" and "– Subordinated Obligations."

The following table sets forth as of March 1, 2023 the Outstanding indebtedness secured by installment payments to be made by the City from Net System Revenues.

**TABLE 20**
**OUTSTANDING DEBT**
**As of March 1, 2023**

| | Final Maturity | Outstanding Principal Amount as of March 1, 2023 |
|---|---|---|
| Senior Obligations: | | |
| 2020A Senior Bonds | August 1, 2049 | $208,185,000 |
| 2020B Senior Bonds | August 1, 2032 | 89,515,000 |
| SRF Loans | | |
| Miramar Water Treatment Plant | July 1, 2031 | $9,627,385 |
| Alvarado Water Treatment Plant | July 1, 2031 | 5,777,924 |
| Otay Water Treatment Plant | January 1, 2032 | 9,211,094 |
| Harbor Drive Pipeline Replacement | January 1, 2036 | 7,384,798 |
| Lindbergh Field Pipeline Replacement | January 1, 2036 | 2,277,285 |
| University Ave Pipeline Replacement | January 1, 2039 | 21,107,191 |
| 69th Street and Mohawk Pump Station | January 1, 2050 | 13,022,015 |
| Total SRF Loans | | $68,407,692 |
| Total Senior Obligations | | $366,107,692 |
| Subordinated Obligations: | | |
| 2016A Subordinated Bonds | August 1, 2045 | $35,920,000 |
| 2016B Subordinated Bonds | August 1, 2039 | 349,835,000 |
| 2018 Subordinated Bonds | August 1, 2047 | 226,705,000 |
| 2020 WIFIA Loan(1) | August 1, 2057 | 145,218,742 |
| Commercial Paper Notes(2) | Varies | 225,930,000 |
| Total Subordinated Obligations(3) | | $983,608,742 |
| Total All Obligations | | $1,349,716,434 |

(1) The City's borrowing of up to $614 million pursuant to the 2020 WIFIA Loan Agreement. The Outstanding amount represents loan proceeds disbursed as of March 1, 2023.

(2) To be refunded with the 2023A Bonds. The aggregate principal amount of Commercial Paper Notes outstanding at any time may not exceed $250 million.

(3) Outstanding Subordinated Obligations do not include the City's subsequent borrowing of up to $119.5 million pursuant to the 2021 WIFIA Loan Agreement for the Pure Water Program Phase 1 executed August 19, 2021 as the City has not yet requested disbursements of amounts under the 2021 WIFIA Loan and no principal is Outstanding under the 2021 WIFIA Loan as of March 1, 2023.

Source: Department of Finance and Public Utilities Department, City of San Diego.

As of the date of this Official Statement, other than the SRF Loans and the WIFIA Loans, the Department has not entered into any direct bank loans or issued any direct placement debt secured or payable from amounts in the Water Utility Fund. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2023A BONDS – Senior Obligations" and " – Subordinated Obligations."

The City has no general obligation bonds Outstanding (for water purposes or otherwise) and has no immediate plans to issue such indebtedness. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan."

## Anticipated Additional Obligations

Pursuant to the Master Installment Purchase Agreement, the City may incur additional obligations, payments with respect to which will be on parity with, or subordinate to, the City's obligation to make 2023 Installment Payments, subject to satisfaction of the conditions specified in the Master Installment Purchase Agreement. Table 11 sets forth the projected sources and uses of funds for the Water System CIP for Fiscal Years 2023 through 2028. See “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan.”

The City anticipates issuing additional debt in Fiscal Years 2023 through 2028 to finance the costs of certain projects in the Water System Baseline CIP in the approximate amount of $974 million through a combination of SRF Loans, water revenue bonds, and Commercial Paper Notes. Of this amount, $596 million is expected to be derived from a combination of revenue bonds and Commercial Paper Notes. As the aggregate principal amount of Commercial Paper Notes Outstanding at any time may not exceed $250 million, the Department expects to repay Commercial Paper Notes by issuing water revenue bonds approximately every two years. The timing of these note and bond offerings is dependent on the project construction schedules and cash flow needs. Of the remaining amount, approximately $377.6 million is expected to be derived from SRF Loans for which the City has applied or intends to apply. The State Water Resources Control Board’s Drinking Water State Revolving Fund Loan Program has allocated funding for two transmission pipeline replacement projects in Fiscal Year 2023 that are currently estimated to total $210 million; the City has submitted applications for three projects that are currently estimated to total approximately $129 million, which are at various stages of review; and the remainder are for projects the City intends to apply within the five year period. The expected receipt of the additional SRF Loan proceeds and Commercial Paper Notes or revenue bond funds are included in the City’s financial projections in Table 19. Proceeds from the anticipated SRF Loans will provide funding in Fiscal Years 2024 through 2028, with interest only repayment during the construction periods for each project. Any additional SRF Loans are assumed to be on a senior lien basis, payable on parity with the Net System Revenues securing the Senior Obligations. The lien status of future Obligations payable from System Revenues is yet to be determined.

The City has entered into two WIFIA Loan Agreements totaling up to $733.5 million on a drawdown basis to fund the Water System’s share of Phase 1 of the Pure Water Program. To date, the City has drawn approximately $145 million from the 2020 WIFIA Loan.

See “SECURITY AND SOURCES OF PAYMENT FOR THE 2023A BONDS – Incurrence of Additional Obligations,” “WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM – Capital Improvement Financing Plan” and “RISK FACTORS.” There can be no assurances as to timing and availability of additional funding.

**Labor Relations**

As provided in the Fiscal Year 2023 Adopted Budget, there are approximately 947.59 full time equivalent employees of the Department (Water Branch) of which approximately 496.65 are represented by the San Diego Municipal Employees’ Association (“MEA”), and approximately 392.94 are represented by American Federation of State, County, and Municipal Employees, Local 127 (“AFSCME Local 127”) (both “Recognized Employee Organizations”). The remaining employees are not represented by any labor organizations. On a citywide basis, there are four other Recognized Employee Organizations that do not represent any Department (Water Branch) employees.

In Fiscal Years 2022 and 2023, the City Council has authorized general salary/wage increases for all employees represented by MEA and AFSCME Local 127, and also approved special salary/wage adjustments for certain classifications or equity adjustments, as described below. In addition, the City Council approved a total of 9% general wage increases for all unrepresented employees in Fiscal Years 2022 and 2023.

***Collective Bargaining Agreements***. The City has current collective bargaining agreements with MEA and AFSCME Local 127, which represent employees of the Department (Water Branch), for Fiscal Years 2022-2023 (July 1, 2021 - June 30, 2023). The City is currently in negotiations with MEA and AFSCME Local 127 regarding its respective successor Memorandum of Understanding ("MOU") for Fiscal Year 2024 forward. In the event a new MOU is not agreed upon when the existing MOU expires, the parties may continue to operate under the terms of the expired MOU until a new MOU is in place.

*MEA*. In June 2021, as part of a multi-year agreement, City Council approved a total of 9% general salary increase in pensionable compensation for MEA-represented employees for Fiscal Years 2022-2023: 4% increase in Fiscal Year 2022 and a 5% increase in Fiscal Year 2023. In addition, the City Council approved special salary adjustments for approximately 153 classifications ranging from 3% to 29.36% each Fiscal Year with various implementation dates of July 1, 2021, January 1, 2022, July 1, 2022, and January 1, 2023. In Fiscal Year 2023, the City Council approved equity adjustments for approximately 152 classifications ranging from 2.5% to 24% with implementation dates of July 1, 2022, October 1, 2022, January 1, 2023, April 1, 2023, and June 30, 2023. There were additional increases to various Voluntary Certification Pays for certain classifications in the Department implemented on July 1, 2021. Regarding the Water Branch, specific classifications who possess a certification in Water Distribution Operations and Water Treatment Operations from the State Water Resources Control Board are eligible to receive an additional $1-$5 per hour depending on the level of certificate (*i.e.* D3 to Chief DO or T3 to Chief PO). Finally, MEA-represented employees also received an additional 8-hours of Discretionary Leave to be used during the term of the MOU (Fiscal Years 2022 and 2023). These adjustments are reflected in Table 19 above. The City is currently in Fiscal Year 2024 contract negotiations with MEA for a successor MOU.

*AFSCME Local 127*. In June 2021, as part of a multi-year agreement, City Council approved a total 8% general salary increase in pensionable compensation for AFSCME Local 127-represented employees for Fiscal Years 2022-2023: 4% increase in Fiscal Year 2022 and a 4% increase in Fiscal Year 2023. AFSCME Local 127-represented employees also received increases to their Flexible Benefits for the Employee + Tiers. Specifically, the Employee + Children tier increased by $1,500 (from $13,250 to $14,750); the Employee + Spouse/Domestic Partner tier increased by $2,000 (from $14,750 to $16,750); and the Employee + Family tier increased by $3,000 (from $18,750 to $21,750). In addition, the City Council approved special salary adjustments for approximately 31 classifications ranging from 5% to 15% each Fiscal Year with implementation dates of January 1, 2022, July 1, 2022, and January 1, 2023. In Fiscal Year 2023, the City Council approved equity adjustments for approximately 49 classifications ranging from 5% to 24% with implementation dates of July 1, 2022, January 1, 2023, and June 30, 2023. There were additional increases to various Voluntary Certification Pays for certain classifications in the Department implemented on July 1, 2021. Regarding the Water Branch, specific classifications who possess a certification in Water Distribution Operations and Water Treatment Operations from the State Water Resources Control Board are eligible to receive an additional $1-$3 per hour depending on the level of certification (*i.e.*, D3 to D5 or T4 to T5). Finally, AFSCME Local 127-represented employees also received an additional 8-hours of Discretionary Leave to be used during the term of the MOU (Fiscal Years 2022 and 2023). These adjustments are reflected in Table 19 above. The City is currently in Fiscal Year 2024 contract negotiations with AFSCME Local 127 for a successor MOU.

## Information Technology

The Department's systems utilize two separate environments: (i) an internal employee system referred to as "sannet" that is managed by the City's Department of Information Technology (the "City Department of IT") and (ii) a distributed computer system referred to as a Supervisory Control and Data Acquisition system (the "SCADA system") used by operations and management to view the entire water process and perform control actions, which system is managed by the Department's own information technology division (the "Department IT Division").

***City Department of IT Staff and Operations.*** The City's Department of IT provides high quality technology services while driving strategic innovation through collaboration and partnership with City and regional stakeholders. In addition to a robust team of City staff, the services are supported by contracts with managed service providers for application development and maintenance, enterprise computing, service desk, workplace services, and network systems.

Each year the City Department of IT prepares a five-year strategic plan. The Fiscal Year 2023 through Fiscal Year 2027 IT Strategic Plan is a comprehensive plan developed to align with the Citywide Strategic Plan; modernize the City's networks, information technology infrastructure, and applications; and integrate information technology industry best practices with the delivery and contracting of technology services. This plan includes the acceleration of the transition of City applications to cloud and Software as a Service (SaaS) while enhancing the efficiency and resiliency of the City's application portfolio and securely adapting to an increasingly remote workforce. Roadmaps have been developed for each major area of service, with each roadmap containing hundreds of projects that keep the City's systems current, adhere to information technology governance, target cost reductions, enhance security, improve efficiencies, accelerate mobile and cloud adoption, drive innovation, modernize services, and increase automation.

***Cybersecurity***. The City's Information Security Office ("ISO"), a group within the City Department of IT, works to adopt new technology and procedures in an effort to protect the City's systems and confidential and proprietary data of the City, its employees and members of the public. This office also provides the development, implementation and management of all City-wide information security policies, standards, procedures, and internal controls. The ISO focuses on three core components: (1) confidentiality – preventing the unauthorized access and disclosure of City information, including protecting personal privacy and proprietary information; (2) integrity – guarding against improper information modification or destruction by ensuring information non-repudiation and authenticity; and (3) availability – ensuring timely and reliable access to, and use of, City information and systems. The ISO implements holistic strategies to follow industry best practices, develop City-wide security policies, provide regular security training to all users and use best-of-breed security tools to mitigate, prevent, deter and respond to incidents if and when they occur. Additionally, to identify potential vulnerabilities and proactively mitigate them, the City organizes regular vulnerability scanning of critical systems, annual penetration tests of the information technology environment, and regular internal testing of systems and user access controls. These tests are performed by both the ISO and contracted third parties. During off hours, holidays, and weekends, security tools are monitored by a contracted Security Operations Center. In the event of a cyber-security incident, the ISO has a documented Incident Response Plan that is reviewed and updated on a quarterly basis. If additional assistance is needed, a breach response team is available on retainer.

The City's contracted Managed Service Providers secure the IT infrastructure and provide engineering services for the City's information systems. The City has working relationships and meets regularly with security experts in Federal and state governments, commercial enterprises, academic institutions and law enforcement organizations. By virtue of these relationships, the City aims to stay informed of cyber threats and communicates with proper authorities regarding cyber risks and incidents. The City, like many other large public and private entities, has been the subject of cybersecurity incidents. Each such incident was addressed in accordance with the City's then-applicable protocol. The City consistently maintains an annual Key Performance Indictor of percentage of security incidents per month per 10,000 users of less than 1.0%.

***Public Utilities Department Information Technology Division Staff and Operations***. The Department has its own IT division (the "Department IT Division") that is responsible for maintaining the Water System's central operations management network and distributed control systems for infrastructure monitoring and control, and adheres to industrial control system standards. These systems and other industrial control systems are maintained by the Department do not allow for remote access. The Department maintains these systems and their security controls separate from the City's Department of IT.

The Department IT Division employs additional systems and industrial controls, including a SCADA system that is used to monitor and control the Water System, and employs additional system security safeguards and controls pursuant to protecting the public safety interests related to clean water delivery and wastewater treatment, following definitive and published guidelines for the extra security required of industrial control systems by the National Institute of Standards and Technology Special Publication 800-82.

**Climate Change Assessment and Mitigation Plan**

***General***. Changes in the earth's average atmospheric temperature, generally referred to as "climate change," have become important factors in water resources planning in the State, and are being considered during planning for the Department's water and wastewater supplies and systems. Many studies cite evidence that increasing concentrations of greenhouse gases have caused and will continue to cause a rise in temperatures around the world, which will result in a wide range of changes in climate patterns. Moreover, these studies cite evidence that a warming trend occurred during the latter part of the 20th century and will likely continue through the 21st century. These changes could have a direct effect on water resources in the State, and numerous studies on climate have been conducted to determine the potential impacts. Based on these studies, global warming could result in the following types of impacts in the State, including impacts on water and wastewater supplies and systems:

- Sea level rise and an increase in saltwater intrusion,
- Increased coastal erosion,
- Changes in the timing, intensity, and variability of precipitation, and an increased amount of precipitation falling as rain instead of as snow,
- Reductions in the average annual snowpack due to a rise in the snowline and a shallower snowpack in the low- and medium-elevation zones, and a shift in snowmelt runoff to earlier in the year,

- Long-term changes in watershed vegetation and increased incidence of wildfires that could affect water quality,
- Increased water temperatures with accompanying adverse effects on some fisheries,
- Increases in evaporation and concomitant increased irrigation need, and
- Changes in urban and agricultural water demand.

However, other than the general trends listed above, it remains unclear exactly how global warming will quantitatively affect water and wastewater supplies and systems in the State.

***Sea Level Rise and Coastal Erosion Concerns***. According to the latest state guidance (California Coastal Commission Sea Level Rise Policy Guidance November 2018), sea levels in San Diego may rise by 0.6 to 1.1 feet by 2030, 1.2 to 2.8 feet by 2050, and 3.6 to 10.2 feet by 2100. These ranges demonstrate a level of uncertainty associated with estimating sea level in the long term, particularly in the latter half of the 21st century as well as considerable uncertainty regarding ice sheet melting. Notably, a variety of factors affect local relative sea level rise ("SLR"), including vertical land movement, ocean dynamics, and changes in the Earth's gravitational and rotational fields. Through 2100, San Diego is projected to subside at a rate of 1.4 mm/year, and the glacial geostatic adjustment is projected to cause local relative sea level to increase by 0.4 mm/year. These values are factored into the SLR projections for the San Diego region. In 2022, the National Oceanic and Atmospheric Administration ("NOAA") released the 2022 Sea Level Rise Technical Report, which is the most up-to-date SLR projections available for the United States. The report anticipates SLR to be, on average, 8-10 inches over the next three decades for the west coast. The report's SLR scenarios show slower acceleration of SLR in the near term and greater acceleration of SLR after 2050.

The City has completed multiple climate change vulnerability assessments to better understand the potential risks posed by climate change related hazards. In accordance with AB691, the City assessed the impact of sea level rise to its public trust lands. The AB691 State Lands Sea Level Rise Vulnerability Assessment, completed and reported in July 2019, assesses impacts of sea level rise and coastal processes for the years 2030, 2050, and 2100 and identifies strategies to adapt and reduce potential vulnerabilities. The assessment provides a range of estimates if no mitigation or adaptation measures are implemented. Assuming that a storm surge may occur alongside higher sea levels, the City reported that the cost to replace wastewater pipelines in the State-granted land areas ranges from \$2.7-\$4.7 million by 2030, or \$3.6-\$16.5 million by 2050. In February 2020, the City also completed a citywide Climate Change Vulnerability Assessment, funded in part with support from a California Coastal Commission LCP Local Assistance Grant and a Caltrans Adaptation Planning Grant. The citywide Climate Change Vulnerability Assessment evaluates the exposure of City assets to climate change-related hazards including coastal flooding and erosion related to sea level rise, wildfires, extreme heat, and precipitation driven flooding. Vulnerability scores of asset types account for the exposure, sensitivity, and adaptive capacity of the asset type, as well as potential consequences were that asset to be impacted. The assessment identifies increasing exposure of assets from now through the end of the century. The citywide Climate Change Vulnerability Assessment was an important step to identify which asset types may warrant further study or may be good candidates for adaptation strategy implementation to reduce vulnerability.

The City also prepared a Sea Level Rise Vulnerability Assessment in 2019, funded in part with support from a California Coastal Commission LCP Local Assistance Grant, as well as a

City-wide Climate Change Vulnerability Assessment, funded in part with support from a Caltrans Adaptation Planning Grant. The Sea Level Rise Vulnerability Assessment evaluated the exposure of City assets to coastal flooding and erosion related to sea level rise. This effort also included the completion of a Coastal Erosion Assessment in 2018 that assessed 71 site locations along the City's coastline to determine priority rankings. The Coastal Erosion Assessment enables the City to make informed decisions regarding cliff and shoreline improvements. These findings were folded into the citywide Climate Change Vulnerability Assessment. The City recognizes that climate change-related hazards have the potential to negatively impact both public assets and the City's ability to provide essential services over time. To mitigate these impacts, the City has adopted Climate Resilient SD, a comprehensive climate adaptation and resilience plan that includes a suite of strategies to mitigate risk to climate change hazards and build City capacity to prepare for, respond to, and recover from climate change hazards or events. See " – Climate Adaptation and Resiliency Plan" below.

***City Climate Action Plan***. In response to Climate Change, the City Council adopted the Climate Action Plan for the City (the "CAP") in December 2015 which established a goal of eliminating 50% of all greenhouse gas emissions in the City by 2035. The Fiscal Year 2022 Adopted Budget allocated $484.3 million to the direct costs of the CAP, and future costs are considered critical strategic expenditures in the Five-Year Outlook. The CAP establishes a roadmap for the City to achieve the greenhouse gas ("GHG") emission reduction goals set by the State of California, while improving San Diego's environment, economy and communities. Annual monitoring reports are prepared to track the City's progress in meeting the goals identified in the CAP. The 2020 monitoring report, for example, showed a 25% reduction in regional GHG emissions in 2019 compared to 2020. Additionally, in 2021, an audit of the City's implementation of the CAP was released by the City Council, which included several recommendations for improving the implementation of the CAP prepared in consultation with various City departments.

The CAP was updated in August 2022. As part of the process, the City revised its goal of eliminating 50% of all GHG emissions by 2035 to instead reaching net zero GHG emissions by 2035. The CAP, as updated, identifies six equity-focused strategies to achieve the City's goal of net zero emissions by 2035 through reducing and avoiding GHG emissions. In addition to the CAP, the City is developing the Climate Action Implementation Plan (the "CAIP"), which is a set of tools to facilitate transparent and accountable CAP implementation. The CAIP will provide the pathway for the sequencing of CAP actions and measures, identify departmental responsibilities, and include research into innovative funding solutions. It will also include cost estimates for each action for the first five years of implementation. A draft of the CAIP was released in February 2023. The initial estimate to implement new and expanded programs is approximately $30 million per year during Fiscal Years 2024 through 2028. The City is also developing annual CAP workplans for implementing departments. These departmental workplans will be incorporated into the annual City budget process to illustrate how CAP actions are being funded and implemented.

Another step in the City's efforts to reduce GHG has been the recent creation of San Diego Community Power ("SDCP"), regional joint powers authority, to provide 100% clean power through community choice aggregation. SDCP began operations on March 1, 2021, with the goal of providing clean power at competitive rates and achieving 100% renewable energy by 2035. Currently, SDCP is completing enrollment for the five founding member cities of San Diego, Chula Vista, La Mesa, Encinitas, and Imperial Beach, and now serves 712,930 accounts, which makes SDCP the second largest community choice aggregation in the State. The opt-in rate for customers in the City is currently over 96%. SDCP also completed a Community Needs Assessment in 2022 to fully inform the development of future customer programs. SDCP expects to begin enrollment for two new member agencies, National City and the County of San Diego, in spring of 2023.

***Climate Adaptation and Resiliency Plan***. The City developed a climate adaptation plan, *Climate Resilient SD*, which was adopted on December 14, 2021, and provides a framework for future action to mitigate risks and minimize exposure to climate change-related hazards. The plan includes a suite of prioritized adaptation strategies, tailored to address the vulnerabilities identified in the citywide *Climate Change Vulnerability Assessment*. Additionally, the plan met the legislative requirements of Senate Bill 379, which requires that cities and counties include a set of adaptation and resiliency goals, policies, and strategies for implementation. The extent to which City buildings, utilities, equipment and other properties are exposed to climate change-related risks over the next several decades is difficult to determine, as is the potential cost of risk mitigation and adaptation efforts, and any additional services. While these costs over time could be significant and could have a material adverse effect on the City's finances by requiring greater expenditures to mitigate and/or adapt to the effects of climate change, the City expects these costs will be less than the costs it may incur through inaction. *Climate Resilient SD* includes a goal to maintain and ensure minimal disruption to all critical City services in the face of climate change hazards. To support that goal and the policy to secure and maintain water and wastewater supplies and services, the Department will: replace or rehabilitate water pipes to maintain a state of good repair and ensure structural integrity, consider design guidelines updates to include climate change impacts, and will account for changes in precipitation and sea level rise in water planning.

***Certain Effects on the Water System***. The foregoing plans and studies reflect the formal policies that the City and the City Council have adopted, but do not represent the full scope of actions being taken by the City or the Department. For example, the Department has attempted to address certain effects of the climate change factors described above by committing to evaluating the location and design of its facilities, including the construction of such facilities further inland and away from areas most susceptible to sea-level rise as part of its current and future planning studies and capital projects. The Department has also embarked on projects, including the Pure Water Program, to address the potential shortage of water in times of extended drought and the increased potential for rainfall instead of snow (the latter being important to the availability of water during warmer seasons). The Department is also implementing projects that reduce the amount of energy used at its facilities and continues to pursue renewable generation such as photovoltaics at Department sites and properties. See "RISK FACTORS — Water Supply and its Financial Impacts."

## Insurance and Liability Claims

***General***. The City has implemented a Safety and Risk Oversight Committee ("SROC"). that is chaired by the City's Chief Financial Officer and co-chaired by the directors of the Compliance and Risk Management departments. Operational departments and their in-house safety personnel are also committee participants. In addition to monitoring and tracking implementation of remedial measures to reduce the City's risk of liability, the SROC identifies existing and emerging risks. The SROC implements a consistent, city-wide proactive approach to mitigating operational liability, promoting safety best practices, and distributing information on updated federal, State, and local safety regulations.

The City also maintains a robust insurance portfolio which provides insurance coverage for claims with varying limits and self-insured retentions or deductibles. The City is self-insured up to $5 million for workers' compensation program and public liability claims. For public liability claims between $5 million and $50 million, the City has coverage through its member participation in Public Risk Innovation, Solutions and Management ("PRISM"), a statewide joint powers authority risk pool.

***Property and Flood Insurance***. The City participates in the joint purchase of property insurance and flood insurance through the PRISM pool, which includes flood and earthquake coverage for certain scheduled locations, including bond financed locations of the Water System.

This joint purchase of property and flood insurance through the PRISM pool, which includes flood and earthquake coverage for scheduled locations, including bond financed locations of the Water System, insures approximately $4.7 billion of City property, and provides coverage for loss to City property under the primary policy up to $25 million per occurrence and with access to additional excess limits. The policy is subject to a $25,000 deductible. Depending on availability and affordability of earthquake insurance, the City may not elect to purchase such coverage in the future, and earthquake insurance is not required by the Master Installment Purchase Agreement.

***Employee Dishonesty and Faithful Performance Insurance.*** The City is a public agency subject to liability for the dishonest acts, and negligent acts or omissions of its officers and employees acting within the scope of their duty ("employee dishonesty" and "faithful performance"). The City participates in the joint purchase of insurance covering employee dishonesty and faithful performance through the PRISM pool.

***Cyber Liability Insurance.*** The City maintains Cyber Liability insurance coverage for security and privacy liability claims. Coverage for website media content liability, cyber extortion and first party data protection is also afforded under this insurance program. Coverage is purchased through the PRISM pool. See "WATER SYSTEM FINANCIAL OPERATIONS – Information Technology – Cybersecurity" for information with respect to the City's practices to protect against cyber threats.

***Insurance for the Water System***. Coverage under the City's PRISM policy extends to losses arising out of the operation of the Water System, including, among other assets, treatment plants, pump stations, administration buildings, garages, warehouses, concession buildings, water tanks, and labs. There is also certain limited coverage related to dams and reservoirs. However, the City does not maintain any insurance for the pipelines of the Water System because such insurance is not available at commercially reasonable rates. The City is not obligated under the Master Installment Purchase Agreement to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Water System.

See Note 15 "RISK MANAGEMENT" contained in the City's ACFR for Fiscal Year 2022 which is available through EMMA and incorporated by reference in this Official Statement, for additional information on the City's insurance coverages. See "FINANCIAL STATEMENTS" herein.

The following table sets forth the liabilities claims expenditures for liability claims of the Water System for Fiscal Years 2018 through 2022.

**TABLE 21**
**WATER UTILITY FUND LIABILITY CLAIMS BUDGET AND EXPENDITURES**
**Fiscal Years 2018 through 2022**

| Fiscal Year | Budget[1] | Expenditures[2][4] |
|---|---|---|
| 2018 | $2,095,600 | $5,873,310 |
| 2019[3] | 1,995,600 | 9,221,215 |
| 2020 | 1,995,600 | 4,000,789 |
| 2021 | 1,995,600 | 2,960,246 |
| 2022 | 1,995,600 | 4,326,390 |

(1) Budget is based on average expected expenditures on liability claims.
(2) Expenditures exceeding budget are paid from available Water Utility Fund balance.
(3) Liability claims expenditures increased in Fiscal Year 2019 from third-party property damage claims from fewer, but larger diameter water main breaks, resulting in more expensive claims per occurrence.
(4) Amounts do not include settlement payments related to the *Patz Litigation*. Accruals of liability were recorded as an Operating Expense in Fiscal Years 2021 and 2022 as shown in Table 16, footnote 5, pending the outcome of the appeal. See "LITIGATION - *Patz Litigation*."

Sources: Public Utilities Department and Risk Management Department, City of San Diego.

## Investment of Funds

***General***. Amounts in the funds and accounts of the Water Utility Fund are invested by the City Treasurer in the City Treasurer's Pooled Investment Fund (the "City Pool") described below. Approximately 12.1% of the City Pool is allocable to the Water Utility Fund.

***City Pool***. In accordance with the Charter of the City and authority granted by the City Council, the City Treasurer is responsible for investing the unexpended cash in the City Pool. Responsibility for the daily investment of funds in the City Pool is delegated to the City Treasurer's Investment Officers. The City and certain related entities are the only participants in the City Pool; there are no other participants either voluntary or involuntary in the City Pool. The investment objectives of the City Pool are safety of principal, liquidity and return.

The following table sets forth the investments in the City Pool as of December 31, 2022.

**TABLE 22**
**CITY OF SAN DIEGO POOLED INVESTMENT FUND[1]**
**At December 31, 2022**
**($ Amounts in Thousands)**

| Investment Instrument | Book Value | Fair Value[1] | Percent of Total[2] |
|---|---|---|---|
| U.S. Treasury Notes | $ 1,633,123 | $ 1,563,335 | 61.24 % |
| Local Agency Investment Fund | 66,246 | 66,246 | 2.48 |
| Commercial Paper | 439,555 | 442,954 | 16.48 |
| Repurchase Agreement | 145,800 | 145,800 | 5.47 |
| Corporate Notes | 226,754 | 223,647 | 8.50 |
| Asset Backed Securities | 155,430 | 152,701 | 5.83 |
| **TOTAL INVESTMENTS** | $ 2,666,908 | $ 2,594,682 | 100.00% |

(1) Total does not foot due to rounding.
(2) Based on book value.
Source: Office of the City Treasurer, City of San Diego.

The City Pool is not invested in any structured investment vehicles or mortgage-backed securities. In addition, the City has no Outstanding swap arrangements or liquidity facilities in connection with its investment program.

A summary of the investments held by the City Pool as of June 30, 2022, a description of the City's Investment Policy, as well as a list of investments authorized under the California Government Code and the City's Investment Policy, are set forth in the City's ACFR for Fiscal Year 2022 at Note 3, "Cash and Investments."

***Oversight and Reporting Requirements***. The City Treasurer provides a monthly investment report, including the portfolio market valuation, to the Mayor, City Council, Chief Financial Officer, and other senior management officials. In addition to the monthly investment reports, the Department annually presents the City Treasurer's Investment Policy to the City Treasurer's Investment Advisory Committee, the Budget and Government Efficiency Committee, and the City Council. The City Treasurer's Investment Advisory Committee is comprised of two City employees, currently the Chief Financial Officer and the Assistant Director of the Department of Finance, and three outside investment professionals and is charged with overseeing the review of the City Treasurer's Investment Policy and investment practices of the City Treasurer and recommending changes thereto. Investments in the City Pool are audited annually by an independent firm of certified public accountants as part of the overall audit of the City's financial statements.

The City's Investments Division uses outside services to provide investment portfolio valuations, accounting, and reporting services. These services provide monthly portfolio valuation, investment performance statistics, and other portfolio reports that are distributed to the Office of the City Treasurer Accounting program and the Department of Finance for review and reconciliation.

### San Diego City Employees' Retirement System – Water Utility Fund Contribution

The City has a defined benefit pension plan (the "Pension Plan") and various defined contribution pension plans covering substantially all of its employees. On February 23, 2023, Cheiron, Inc. ("Cheiron"), the San Diego City Employees' Retirement System ("SDCERS") actuary, released its Fiscal Year 2022 Actuarial Valuation for the Pension Plan (the "2022 Actuarial Valuation"). Where indicated, such information from such valuation has been included herein. The 2022 Actuarial Valuation has not been approved by the SDCERS Board and is subject to change. The SDCERS Board is scheduled to vote on approval of the 2022 Actuarial Valuation on March 10, 2023.

Based on the 2022 Actuarial Valuation, the City had an Unfunded Actuarial Liability ("UAL") in the Pension Plan of approximately $2.84 billion and an ADC of $448.1 million as of June 30, 2022. Based on the actuarial value of assets, the Pension Plan had a funded ratio of 76.0% as of June 30, 2022.

As a result of the invalidation of Proposition B (defined herein), the City officially reopened the Pension Plan to all non-police employees initially hired by the City on or after July 10, 2021. New hires who entered SDCERS after the reopening of the plan are reflected in the $448.1 million ADC for Fiscal Year 2024 and the UAL of $2.84 billion as of June 30, 2024 set forth in the 2022 Actuarial Valuation. However, as described further in the "– Proposition B" section and below Table 25, the UAL does not include reinstated eligible non-police employees as a result of the unwinding of Proposition B who were previously excluded from the pension Plan.

***Defined Benefit Plan***. SDCERS is a public employee retirement system established in Fiscal Year 1927 by the City. SDCERS administers independent, qualified, single employer governmental defined benefit plans and trusts for the City, the San Diego Unified Port District (the "Port") and the San Diego County Regional Airport Authority (the "Airport"). The assets of the three separate plans and trusts are pooled in the SDCERS Group Trust for investment purposes. These plans are administered by the SDCERS Board to provide retirement, disability, death and survivor benefits for its members. Amendments to the City's benefit provisions require City Council approval and amendments to retirement benefits require a majority vote by those SDCERS members who are also eligible City employees or retirees. All approved benefit changes are codified in the City's Municipal Code. The plans cover all eligible employees of the City, the Port, and the Airport. All City employees initially hired before July 20, 2012 or after July 9, 2021 working half-time or greater, all sworn police officers of the City irrespective of hire date, and full-time employees of the Port and the Airport are eligible for membership and are required to join SDCERS. See, however, "– Proposition B" below.

SDCERS is considered part of the City's financial reporting entity and is included in the City's ACFR as a pension trust fund. See Note 12, "PENSION PLANS," in the City's Fiscal Year 2022 ACFR. SDCERS also prepares its own Annual Comprehensive Financial Report, the most recent of which is for Fiscal Year 2022.

The amounts and percentages set forth under this caption relating to SDCERS, including, for example, actuarial accrued liabilities and funded ratios, are based upon numerous demographic and economic assumptions, including investment return rates, inflation rates, salary increase rates, cost of living adjustments, postemployment mortality, active member mortality, and rates of retirement. Prospective purchasers of the Bonds are cautioned to review and carefully assess the reasonableness of the assumptions set forth in this Official Statement and in the documents that are cited as the sources for the information under this caption. In addition, the prospective purchasers of the 2023A Bonds are cautioned that such sources and the underlying assumptions speak as of their respective dates, and are subject to change. Prospective purchasers of the 2023A

Bonds should also be aware that some of the information presented under this caption contains forward-looking statements and the actual results of the pension system may differ materially from the information presented herein.

The information disclosed herein relates solely to the City's participation in SDCERS and not to the participation of the Airport or the Port. City employment classes participating in the City's defined benefit plan are elected officers, general employees and safety employees (including police, fire and lifeguard members). These classes are represented by various Recognized Employee Organizations depending on the type and nature of work performed, except for elected officials, unclassified and unrepresented employees. For information on labor relations of Department employees, see "— Labor Relations."

**TABLE 23**
**CITY OF SAN DIEGO PLAN MEMBERSHIP[(1)]**
**As of July 1, 2022**

| | General | Safety | Total by Classification |
|---|---|---|---|
| Active Members | 3,423 | 2,132 | 5,555 |
| Inactive Members | 2,149 | 786 | 2,935 |
| Retirees | 6,323 | 3,822 | 10,145 |
| DROP Participants[(2)] | 570 | 314 | 884 |
| Total Members | 12,465 | 7,054 | 19,519 |

(1) Figures do not include certain employees affected by Proposition B, who entered SDCERS on July 9, 2022. See "— Proposition B" below.
(2) Participants in the Deferred Retirement Option Plan ("DROP") no longer accrue service credits and do not make contributions to SDCERS. They continue to work for the City and contribute 3.05% of their salary, with an employer match, into a personal DROP account. Their service retirement benefit is also deposited into their DROP account and they must retire within five years of entering DROP. Employees hired after June 30, 2005 are ineligible for DROP.
Source: Cheiron 2022 Actuarial Valuation.

The City is required to make contributions to the pension system as determined by the SDCERS Board. Pension contributions are authorized and appropriated annually in accordance with the adoption of the City's annual budget. The City's ADC is calculated by the SDCERS' actuary, Cheiron and approved by the SDCERS Board. Cheiron conducts an actuarial analysis for SDCERS annually, the most recent of which is the June 30, 2022 Annual Actuarial Valuation of SDCERS, dated December 2022 (the "2022 Actuarial Valuation"). The 2022 Actuarial Valuation serves as the basis for the City's pension contribution for Fiscal Year 2024. The City's actual annual pension contribution may differ from the ADC based on a number of factors discussed below, but the pension contribution is not expected to be less than the ADC in any Fiscal Year.

***Actuarial Assumptions.*** The following are the principal actuarial assumptions used by Cheiron in preparing the 2022 Actuarial Valuation. The actuarial assumptions reflect recommendations approved by the SDCERS Board in July 2020.

1. Investment Return Rate: 6.50% net of investment expenses.
2. Inflation Rate: 3.05% per year, compounded annually.

3. Administrative Expense Assumption: Administrative expenses are assumed to be $11.9 million for Fiscal Year 2024 (assuming payment at the beginning of the Fiscal Year), increasing by 2.50% annually.

4. Interest Credited to Member Contributions: 6.50% compounded annually.

5. Projected Salary Increases Due to Inflation: 3.05%.

6. Cost-of-Living Adjustments: 1.90% per year, compounded annually.

7. Additional Assumptions: Additional assumptions were used regarding cost of living annuity benefit, member refunds of contributions, rates of separation from active membership, rates of disability, post-retirement mortality, disability mortality, active member mortality, family composition, spousal continuances and rates of retirement.

***Funding Status***. According to the 2022 Actuarial Valuation, the City had an Unfunded Actuarial Liability ("UAL") of $2.84 billion and a funded ratio based on the actuarial value of assets of 76.0%, and an ADC to SDCERS of $448.1 million by the City in Fiscal Year 2024. The UAL decreased by $112.1 million over the UAL set forth in the Actuarial Valuation at June 30, 2021 ("2021 Actuarial Valuation"), which was $2.95 billion, and the funded ratio increased by 1.7%. It was projected that the Fiscal Year 2022 UAL would decrease by $421.4 million, but the net asset experience fell short of expected gain, and there was a liability loss due to salary increases above those assumed, offset by demographic experience deviating from assumptions.

The following table sets forth the City's portion of SDCERS historical funding progress for Fiscal Years 2013 through 2022. Additionally, see Note 12, "PENSION PLANS," in the City's Fiscal Year 2022 ACFR. The discussion of the Pension Plan in Note 12 of the City's Fiscal Year 2022 ACFR is based primarily on information in the 2021 Actuarial Valuation.

**TABLE 24**
**CITY OF SAN DIEGO**
**SCHEDULE OF FUNDING PROGRESS**
**Fiscal Years 2013 through 2022**
**($ Amounts in Thousands)**

| Valuation Date (June 30) | Actuarial Value of Assets (A) | Market Value of Assets (B) | Actuarial Liability (C) | Funded Ratio (Actuarial) (A/C) | Funded Ratio (Market) (B/C) | Unfunded AL (Actuarial) (C – A) | AL Less Market Value of Assets (C – B) |
|---|---|---|---|---|---|---|---|
| 2013 | $5,317,778 | $5,395,158 | $7,555,527 | 70.4% | 71.4% | $2,237,749 | $2,160,369 |
| 2014 | 5,828,594 | 6,292,855 | 7,858,703 | 74.2 | 80.1 | 2,030,110 | 1,565,848 |
| 2015 | 6,204,244 | 6,387,829 | 8,205,953 | 75.6 | 77.8 | 2,001,709 | 1,818,124 |
| 2016 | 6,455,378 | 6,307,412 | 9,013,130 | 71.6 | 70.0 | 2,557,752 | 2,705,718 |
| 2017 | 6,808,418 | 7,000,220 | 9,565,802 | 71.2 | 73.2 | 2,757,384 | 2,565,582 |
| 2018 | 7,214,925 | 7,456,337 | 10,192,808 | 70.8 | 73.2 | 2,977,883 | 2,736,471 |
| 2019 | 7,595,073 | 7,779,226 | 10,602,166 | 71.6 | 73.4 | 3,007,093 | 2,822,941 |
| 2020 | 7,870,672 | 7,648,735 | 11,206,326 | 70.2 | 68.3 | 3,335,654 | 3,557,591 |
| 2021 | 8,526,118 | 9,457,379 | 11,478,109 | 74.3 | 82.4 | 2,951,990 | 2,020,730 |
| 2022(1) | 9,008,489 | 9,182,687 | 11,848,469 | 76.0 | 77.5 | 2,839,980 | 2,665,782 |

(1) The City reopened the Pension Plan to all non-police new hires on or after July 10, 2021. New hires who entered SDCERS after the reopening of the plan are reflected in the increase of the Actuarial Liability for Fiscal Year 2022. Reinstated employees since July 9, 2022 are not included in the Actuarial Liability or assets.

Source: SDCERS Annual Comprehensive Financial Reports from Fiscal Years 2014 - 2022 for Valuation Dates 2013-2021. Cheiron 2022 Actuarial Valuation Report.

***Proposition B***. On June 5, 2012, City voters approved Proposition B, a pension reform initiative amending the City Charter. While in effect, Proposition B prevented all employees hired after July 20, 2012, other than sworn police officers, from participating in the City's Pension Plan at SDCERS. Instead, those employees were only eligible to participate in a defined contribution plan, Supplemental Pension Savings Plan-H ("SPSP-H"). In early 2021, the California Superior Court invalidated Proposition B, and the City is in the process of implementing this invalidation.

This implementation entails three steps. First, affected current employees hired between July 20, 2012 and July 9, 2021 were given the option to become members of SDCERS or to remain in the SPSP-H defined contribution plan in which these employees were eligible to participate under Proposition B. On July 9, 2022, approximately 3,200 employees joined SDCERS while approximately 300 elected to remain in the SPSP-H defined contribution plan. For affected individuals who are no longer employed by the City (which are 1,908), negotiations with labor groups representing such former employees are not yet complete. Second, all employees hired on or after July 10, 2021 are members of SDCERS. Third, the City will be responsible to contribute an amount to make-whole affected employees for amounts that would have accrued during that period.

Based on SDCERS' actuary's analysis of payroll data through July 8, 2022, plus additional analysis by the City using defined contribution account balances as of July 28, 2022, the estimated one-time cost for unwinding Proposition B for affected, current employees is $142.0 million ($10.7 million is estimated to be allocable to the Water System), which is comprised of the unfunded liability costs related to Proposition B-affected employees owed to SDCERS (approximately $119 million) and the costs to comply with the court-ordered interest penalty and the make-whole provision (approximately $22.8 million). Estimates of any make-whole amount for former employees are currently unknown.

The City expects that the Water System's contributions to SDCERS will increase in coming Fiscal Years in two respects. First, the City is determining how the make-whole amount will be paid and whether the amount will be paid in one lump-sum or amortized over a number of years. Second, the City expects that with the new membership of the affected employees and increased membership of new employees, its annual pension contributions will be higher than they would have been if Proposition B were not invalidated (though a significant portion of the increase in annual contributions will be offset by the suspension of SPSP-H defined contribution plan matching contributions by the City). The 2022 Actuarial Valuation includes the projected future normal costs for affected employees beginning with the ADC for Fiscal Year 2025. Importantly, neither the make-whole amount nor this increased financial impact is reflected in the actuarial liability or funded ratio of SDCERS as of June 30, 2022 (including the Water System's portion) that are reflected in Table 24 above. An Extraordinary Loss was recorded in the City's Fiscal Year 2022 ACFR reflecting the City's estimate of the make-whole amounts. The amount associated with the Water Utility Fund is presented as a non-operating expense in Table 16. Coverage projections do not reflect potential increases in annual pension contributions related to the make-whole cost attributable to the Water Utility Fund.

***City and Water System Pension Contributions***. The following table sets forth the City's historical ADC and pension contributions, and the Water System's share of payments for Fiscal Years 2018 through 2022. Preservation of Benefits ("POB") Plan contributions are made on a monthly basis as payments are owed to beneficiaries. The City does not pay any portion of employee pension contributions.

**TABLE 25**
**CITY OF SAN DIEGO AND WATER UTILITY FUND**
**PENSION CONTRIBUTION**
**Fiscal Years 2018 through 2022**
**($ Amounts in Thousands, Except in Footnotes)**

| Fiscal Year | Pension Plan ADC (A) | POB Plan Contribution (B) | Total Pension Contribution[1] (A+B) | Water System Contribution to Pension Plan ADC[2] (C) | Water System Operating Expenses[3] (D) | Water System Contribution (% of O&M) (C/D) |
|---|---|---|---|---|---|---|
| 2018 | $324,500 | $1,430 | $325,930 | $20,257 | $490,438 | 4.1% |
| 2019[4] | 322,900 | 1,403 | 324,303 | 15,395 | 485,874 | 3.2 |
| 2020[4] | 350,500 | 1,482 | 351,982 | 15,980 | 496,117 | 3.2 |
| 2021 | 365,600 | 1,562 | 367,162 | 16,893 | 554,337 | 3.0 |
| 2022 | 414,900 | 1,442 | 416,342 | 19,837 | 579,365 | 3.4 |

(1) Comprised of the pension plan contribution and the POB Plan contribution; may not sum due to rounding.
(2) In addition to the annual Water System contribution to the Pension Plan ADC, the Water System contributed $0.4 million and $0.4 million to the Pension Payment Stabilization Reserve in Fiscal Years 2019 and 2020, respectively.
(3) Water System Operating Expenses include Maintenance and Operations Costs and administration and does not include annual debt service.
(4) For Fiscal Year 2019 Water System Contribution to Pension Plan ADC, a revised metric was identified to provide an updated allocation between Water Utility Fund and Sewer Revenue Fund contributions. This resulted in a correcting adjustment in Fiscal Year 2020.

Source: SDCERS Annual Comprehensive Financial Reports for Fiscal Years 2018-2022 for "Pension Plan ADC." City's ACFRs for Fiscal Years 2018-2022 for "POB Plan Contribution" and "Water System Operating Expenses." Department of Finance, City of San Diego for "Water System Contribution to Pension Plan ADC."

The City's Fiscal Year 2023 Pension Plan ADC is $384.3 million (which the City has paid), of which $20 million is budgeted to be the Water Utility Fund's contribution to the Pension Plan ADC. The Fiscal Year 2023 annual pension payment required per the 2021 Actuarial Valuation did not include the pension "normal cost" of approximately $35.2 million City-wide for the employees entering SDCERS as part of the Proposition B unwinding. Subsequently in Fiscal Year 2023, the City paid the Fiscal Year 2022 and 2023 normal costs for Proposition B (new hires on or after July 10, 2021 and reinstated employees who were previously ineligible to join the Pension Plan, respectively), totaling approximately $37.5 million.

In January 2023, the SDCERS Board approved the amortization of the $119 million unfunded pension liability for Proposition B-affected employees over a 20-year period, commencing with the ADC payment due on July 1, 2023. The estimated increase to the ADC resulting from such amortization is approximately $10.8 million per Fiscal Year (an estimated $0.8 million being allocable to the Water Utility Fund). In addition, Fiscal Year 2024 normal costs for Proposition B-affected employees is estimated to be $36.8 million. In the aggregate, the actions approved by the SDCERS Board, as well as the Fiscal Year 2024 normal costs for Proposition B-affected employees increased the Fiscal Year 2024 ADC to $448.1 million. This remains subject to change until the final approval of the 2022 Valuation Report by the SDCERS Board on March 10, 2023.

In the Fiscal Year 2023 Mid-Year Monitoring Report, the City updated the estimates for remaining costs payable in Fiscal Year 2023 associated with the unwinding of Proposition B. These include $22.8 million in one-time costs related to the interest penalty payments mandated by the court, of which an estimated $1.9 million will be paid by the Water Utility Fund, as well as $37.5 million in unpaid normal costs associated with Fiscal Year 2022 and Fiscal Year 2023, of which an estimated $3.0 million is allocable to the Water Utility Fund. Both the interest penalty and unpaid normal cost components were paid in full in Fiscal Year 2023. Additional costs associated with Proposition B employees who have separated from the City are expected in future fiscal years but cannot be reasonably estimated at this time.

**Postemployment Healthcare Benefits – Water Utility Fund Contribution**

***General***. The City provides retiree healthcare benefits, also known as other post-employment benefits ("OPEB"), to certain health-eligible retirees and employees who were initially hired prior to July 1, 2005. As a result of a 15-year memorandum of understanding from Fiscal Year 2012 regarding post-employment healthcare benefits ("PEHB MOU") with the City's recognized employee organizations, there are two retiree healthcare plans: a defined benefit OPEB plan ("DB OPEB Plan") and a defined contribution plan ("DC Plan"). See Note 13, "OTHER POSTEMPLOYMENT BENEFITS" in the City's ACFR for Fiscal Year 2022 for information regarding the City's OPEB plans.

**Citywide and Water Utility Fund OPEB Contributions**. Pursuant to the PEHB MOU, the City's total retiree healthcare annual contribution ("MOU Contribution") was $65.4 million for Fiscal Year 2022 (and was budgeted as $65.4 million in Fiscal Year 2023), distributed among the City's pay-go contribution to the DB OPEB Plan ("DB OPEB Pay-go") and its contribution to the DC Plan. The PEHB MOU also requires that certain employees contribute towards the DB OPEB Plan to fund a portion of the DB OPEB Pay-go. The terms of the PEHB MOU may be renegotiated with a two-thirds vote of the City Council. As of the date of this Official Statement, there are no discussions ongoing to renegotiate the level of funding for the MOU Contribution.

The City's annual payment for the DB OPEB Plan and the DC Plan are made on a pay-go basis. For the last five Fiscal Years, the Water Utility Fund retiree health contribution has been less than $5 million annually, which has represented less than 1% of the Water Utility Fund's maintenance and operation expenses. The Water Utility Fund's share of the Net OPEB Liability is $33.3 million as of June 30, 2021, which is the most recent valuation. For information regarding the City's Net OPEB Liability and OPEB plans, see Note 13, "OTHER POSTEMPLOYMENT BENEFITS," in the City's Fiscal Year 2022 ACFR.

## REGULATORY RISKS

### General

The descriptions under this section are not a comprehensive list of all water and water-related regulatory matters. Drinking water that is delivered to customers is subject to numerous regulations enforced by multiple governmental entities, including the federal, state and regional entities including the EPA, State Water Resources Control Board and California Regional Water Quality Control Board. The transfer, treatment, storage and discharge of water are subject to additional regulations, including under the Federal Clean Water Act through NPDES permits issued by the State Water Resources Control Board and the Porter Cologne Act under the California Water Code. Additionally, various other permits and licenses are required for operation of the water treatment plants, water impounding system, water quality lab and distribution system and address issues such as surface water treatment, disinfection and disinfection byproducts rules, regulations governing groundwater to address waterborne disease and microbial contamination, and rules on the monitoring, reporting and treatment requirements of public water systems associated with lead and copper. The City believes that it is currently in substantial compliance with all federal and State regulations applicable to drinking water and operates and maintains its water treatment transmission and distribution facilities in material compliance with permit requirements.

### Compliance Order of the California Department of Public Health/DDW

The Water System is subject to a Compliance Order (as amended to date, the "DDW Compliance Order") issued by the Division of Drinking Water ("DDW," the successor to the California Department of Public Health), which is the State regulatory agency responsible for ensuring that water systems meet the federal regulations, as well as additional or stricter State regulations. To address certain deficiencies in the future reliability of various components of the Water System, the DDW Compliance Order, issued in 1997, required the Department to complete eight pump stations, 10 reservoirs/standpipes, nine treatment-related projects and four pipelines and award 10 miles of distribution (small diameter) cast iron water main replacement per Fiscal Year until all small diameter cast iron water mains within the Water System have been replaced. Except the pipeline small diameter water main replacement pipelines, all of the required projects were completed in Calendar Year 2012. The awarding of contracts for distribution pipelines is ongoing. The Department is meeting all other ongoing requirements of the DDW Compliance Order, including the provision to the DDW of quarterly progress reports.

The costs for bidding, constructing and completing the required work fluctuates depending on variables such as changes in the cost of materials and labor. The estimated DDW Compliance

Order project costs for Fiscal Years 2022 through 2027 total approximately $26.5 million. The Department anticipates financing such costs with existing net assets, present and future revenues, and financing proceeds secured by Net System Revenues.

**Inventory of Lead User Service Lines**

California Health and Safety Code Section 116885 required the City to submit the results of an inventory of lead user service lines to the State Water Resources Control Board by July 1, 2018. User service lines include pipes, tubing, and fittings connecting the water main (distribution) lines to an individual water meter or service connection. The City completed the initial inventory of user service lines in accordance with applicable law and submitted reporting in May 2018. The City identified approximately 281,000 service lines; of which 192,507 service lines and 15,863 fittings were of unknown material. Under State law, the City was required to provide to the State Water Resources Control Board by July 1, 2020 a timeline for replacement of both service lines that are known to contain lead and service lines that are of an unknown material. The City prepared a plan with the DDW in May 2019 to identify the material used in those service lines that were categorized as unknown. Using Standard Drawings, Specifications, Capital Improvement Project Bid Package and Design Guidelines, the material type of 140,000 service lines were identified as of May 2019. Additional research and data including as-built drawings, maps, water service permit records and field check verifications have been used to further identify service line material type. To date, only one service line was identified as being made of lead, and the service line was immediately replaced by City construction forces on the day it was discovered. In March 2020, the City completed the identification of material type for all remaining service lines, and no other lead service lines were found to be present in the City's system. The federal government recently promulgated Lead and Copper Rules Revisions, that among other things require the Department to prepare a lead service line inventory that includes private services lines running between meter boxes and structure foundations by October 2024 and test schools and child care facilities for lead. The Department has begun investments to address these new regulations and expects that it will meet the deadlines set in the revised rules.

**Dam Licensing and Safety Issues**

Among the Water System's facilities are nine dams that are subject to the jurisdiction of the California Department of Water Resources' Division of Safety of Dams ("DSOD"), which has various inspection and approval authority relative to operation of and improvements to dams. Among the authority granted to DSOD is the power to impose water level restrictions on dams for safety reasons, which may restrict reservoir capacity. These water level restrictions apply to Hodges Dam, Morena Dam and El Capitan Dam. Hodges Dam is a Multiple Arch Buttress Dam, El Capitan Dam is a Hydraulic Fill Rock Embankment Dam, and Morena Dam is a rock filled structure with impervious concrete face. The City maintains a self-imposed water level restriction of 126.5 feet at Morena Dam. Hodges Dam was downgraded from "Fair" to "Poor" condition in September 2019 by DSOD, due to dam safety deficiencies. The water level restriction is a requirement from DSOD, providing a mitigation measure to ensure dam safety of Hodges Dam. The maximum water level was restricted from an elevation of 315 feet down to an elevation of 295 feet. Based on preventative underwater examination of the dam, the water level in Lake Hodges was reduced to an elevation of 275 feet in order to allow for repairs to the Hodges Dam. Based on additional information about the dam's condition obtained during inspections by DSOD in July 2022, DSOD issued a letter on August 16, 2022, which required the City to restrict the water level to an elevation of 275 feet by November 30, 2022. Following the completion of additional analysis and further progress on dam repairs, DSOD issued a letter on February 2, 2023 restricting the water level to an elevation of 280 feet and further downgraded the Hodges Dam condition from "Poor" to "Unsatisfactory" until the time the City can rehabilitate or replace the dam. In February 13, 2023, DSOD issued a letter approving a reduction in the inspection frequency from daily to weekly with a condition that City must continue to perform inspections after any large storm event that raises the reservoir level above elevation 280 feet or after a seismic event. [Review for updates on Dams prior to posting.]

In addition, the California Office of Emergency Services has imposed requirements for the review and approval of inundation maps for dams, critical appurtenant structures, and enhanced dam inspection practices. As a result, the City completed a detailed condition assessment of Hodges Dam and three partial assessments for Savage (for Lower Otay Reservoir), Morena, and El Capitan dams, which are each "extremely high" hazard dam appurtenant structures. These dams are approximately 80-100 years old and are anticipated to need significant repairs. The City plans to complete comprehensive condition assessments for all nine of its dams over the next five years. The condition assessments for all dams are being conducted externally by a contracted firm. Upon completion of the remaining condition assessments, additional capital improvement projects to make dam repairs and improvements may be necessary. The City has estimated that approximately $1 billion of improvements could be needed over the next several decades to ensure dam safety and performance at all nine dams. The Projected Fiscal Year 2023-2028 Capital Improvement Program currently only includes the repair of Hodges Dam during the five-year projection period, but operating expense projections also include critical non-capital repair projects. The Capital Improvement Program does not reflect capital costs that will likely be required by the Department following the additional condition assessments.

The City was awarded grant funding for three City-owned dams from the Federal Emergency Management Agency ("FEMA") National Dam Safety Program. These grants are being administered by the DSOD, and the City is working with DSOD to effectively and proactively maintain safe infrastructure for all residents and industries within dam inundation zones. The Department will continue to pursue funding during each year of the grant opportunity to complete rehabilitation efforts of each eligible dam.

The various dams within the Water System's facilities and related regulatory and safety matters attendant thereto are an area of continuing investigation by the City.

## RISK FACTORS

***Investment in the 2023A Bonds involves risks that may not be appropriate for certain investors. The following is a discussion of certain risk factors that should be considered, in addition to other matters set forth herein, in evaluating the 2023A Bonds for investment. The ability to pay principal of and interest on the 2023A Bonds depends primarily upon the receipt by the Department of revenues from the Water System. Some of the events which could prevent the Department from receiving a sufficient amount of revenues to enable it to pay the principal of and interest on the 2023A Bonds are summarized below. The information set forth below does not purport to be an exhaustive listing of the risks and other considerations that may be relevant to an investment in the 2023A Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such risks.***

## Limited Obligations

The obligation of the City to pay the 2023 Installment Payments securing the 2023A Bonds is a limited obligation of the City and is not secured by a legal or equitable pledge or charge or lien upon any property of the City or any of its income or receipts, except the Net System Revenues payable on a basis that is on parity with the right of payment by the City of its Outstanding Senior Obligations under the Master Installment Purchase Agreement. The obligation of the City under the 2023 Supplement to make the 2023 Installment Payments does not constitute an obligation of the City to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

No assurance can be made that Net System Revenues, estimated or otherwise, will be realized by the City in amounts sufficient to pay the 2023 Installment Payments. Among other matters, drought, general and local economic conditions, and changes in law and government regulations (including initiatives and moratoriums on growth) could adversely affect the amount of Net System Revenues realized by the City. In addition, the realization of future Net System Revenues is subject to, among other things, the capabilities of management of the City, the ability of the City to provide water to its customers, and the ability of the City to meet its covenant to fix, prescribe, and collect rates and charges for the Water Service in amounts sufficient to timely pay the 2023 Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of or interest on the 2023A Bonds. The City has covenanted in the Master Installment Purchase Agreement to fix, prescribe, and collect rates and charges for the Water Service which will be at least sufficient to yield the greater of (i) Net System Revenues sufficient to pay during each Fiscal Year all Obligations payable in such Fiscal Year, or (ii) Adjusted Net System Revenues during each Fiscal Year equal to 120% of the Adjusted Debt Service for such Fiscal Year. See "WATER SYSTEM FINANCIAL OPERATIONS—Establishment of Water Service Charges."

The 2023A Bonds are limited obligations of the Authority payable solely from and secured solely by the Revenues pledged therefor and amounts on deposit in the Bonds Payment Fund established under the Indenture. Funds for the payment of the principal of and the interest on the 2023A Bonds are derived solely from the 2023 Installment Payments. The Authority has no other source of revenues from which to pay debt service on the 2023A Bonds. The Authority has no taxing power.

## Water System Expenses, Collections, and Future Rates

The City expects that in the future financial demands on the Water System will increase due to population growth, regulatory requirements, and utility costs. Increases in expenses could adversely affect the Water System's financial condition and require a significant increase in rates or charges in order to pay for maintenance, operation and capital expenditures related to the Water System, including those anticipated under the Pure Water Program, and to pay the debt service on account of any Obligation including, without limitation, the 2023 Installment Payments securing the 2023A Bonds.

Additionally, water system rate increases could reduce water use, which in turn could reduce flows (and revenues) to the City's Water System and may impact the City's ability to make the 2023 Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2023A Bonds as and when due.

**Water System CIP**

The Water System CIP is a large component of the costs of the Water System. The components of the Water System CIP described in this Official Statement are based upon preliminary estimates by the Department, as are projected schedules for the completion of project components, plans and designs, construction costs, and funding sources. Among other things, steel or other tariffs and rising costs of other materials (cement) and labor could adversely impact the construction costs of several components of the Water System CIP, although any such impacts have not been experienced by the City to date.

The City has seen supply chain disruptions and higher than historical inflation levels (such circumstances at least partially due to the COVID-19 pandemic) that have affected the schedule of capital projects and the estimated cost for several of the City's capital projects, including the Pure Water Program projects. These changes have increased the variability of project costs and timing of expenditures, which impacts the estimates used in this Official Statement. If these supply chain and inflationary pressures continue over the medium to long term, the City will have to adjust its assumptions moving forward. Actual results of the Water System CIP and the projects undertaken thereunder are subject to adjustment and may vary, and costs may be higher or lower than such estimates. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM — Capital Improvement Projects" and Table 10 under that heading.

The largest single portion of the Water System CIP, in terms of cost and scope, is the Pure Water Program. Completion of the Pure Water Program includes certain assumptions (which the Department considers to be reasonable) and Department goals to pursue all options in order to obtain regulatory certainty that the Pure Water Program will suffice to offset the approximately $2 billion requirement to move up from chemically enhanced primary treatment to the secondary treatment standard required to be in full compliance with the Clean Water Act as applied to the City's Wastewater System. In the event the costs of the Pure Water Program exceed the Department's original estimates, and/or if delays or unforeseen obstacles are encountered, additional capital contributions may be necessary in order to pay for the total costs of the Pure Water Program. The exact amount of any such additional capital contributions will depend upon, among other things, (a) the actual costs of Phase 1 and Phase 2 of the Pure Water Program incurred to date, where costs and funding are different than anticipated, (b) any unanticipated additional costs of the Pure Water Program needed to complete the Pure Water Program, (c) approval of a rate case to address future capital program costs in Fiscal Year 2026 and later Fiscal Years, and (d) whether the terms of any bonds, loans or grants differ from those assumed by the Department. As with each component of the Water System CIP, the achievement of projected results, completion, and other expectations involves known and unknown risks, uncertainties, and other factors that may hinder the Department's ability to meet the Water System CIP schedule set forth herein. See "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM — Pure Water Program" for additional information on the Pure Water Program.

The estimated costs of and projected schedule and sources of funding for the Water System CIP are described above in "WATER SYSTEM CAPITAL IMPROVEMENT PROGRAM — Capital Improvement Projects." These costs, schedule and sources of funding are subject to a number of uncertainties. Capital project budgets and financing plans are updated by the Department annually and have increased materially from time to time.

The ability of the Department to complete and finance capital projects may be adversely affected by various factors including: estimating variations; design and engineering variations; changes to the scope, scheduling or phasing of the projects; delays in contract awards and/or as a result of the acts or omissions of third-parties; material scarcity and/or labor shortages; unforeseen site conditions; adverse weather conditions, earthquakes or other casualty events; contractor or other counterparty defaults; labor disputes; unanticipated levels of inflation; inability of vendors or contractors to obtain or maintain financing; environmental issues; bidding conditions through the Department's procurement process; litigation; and capital markets conditions. No assurance can be made that the existing or future projects will not cost more than the current budget or future budgets for such projects. Additionally, conditions to State and federal grants may also result in an increase to the estimated costs of projects. There is pending legislation that could require that taxpayer-funded infrastructure and public works projects use materials produced in the United States, which could increase costs. Schedule delays or cost increases could result in the need to issue additional Obligations and/or incur other permitted debt, the expenditure of additional Department funds and the diversion of financial and other resources to such projects. As a result, actual results could differ and have, in the past, differed materially from previous forecasts.

In addition, certain funding sources are assumed to be available for the Department's projects, including the Water System CIP. The Department's financing plan for the Water System CIP contains assumptions as to the projected amount of additional Obligations, SRF Loans and other funding sources for the Water System CIP. The relative amount of these funding sources directly affects the projected debt service and debt service coverage set forth in this Official Statement. No assurances can be given that such funding will, in fact, be available, or that the Department will not change its plan of finance described in this Official Statement. If such funding sources are not available or the Department changes its plan of finance, the Department may need to expend additional Department funds, eliminate or scale down projects, divert financial and other resources to such projects or incur additional indebtedness, possibly including issuing additional Obligations, to finance such projects. Such changes could result in actual results, including but not limited to debt service coverage, differing materially from the forecasts in this Official Statement.

The Department's ability to finance the Water System CIP also depends upon the orderly function of the capital markets which have in the past experienced substantial disruptions. Future market disruptions may negatively impact the timing and ability of issuers of municipal debt, such as the Department, to access short-term or long-term funding, as well as the cost thereof. No assurance can be given that this source of funding will actually be available in the amounts or at the times desired by the Department.

The Water System CIP involves replacement, upgrading and increasing capacity of existing facilities. Though none are anticipated, environmental changes could adversely affect the completion of the Water System CIP within the contemplated budget or current timeline.

**Water System Demand**

There can be no assurance that the local demand for the services provided by the Water System will be maintained at levels described in this Official Statement. Because of circumstances, including changes in demographics or land use within the boundaries of the City and new water purification programs which may reduce the need for water services, it is possible that the demand for water services may decline over the term of the 2023A Bonds. Additionally, Water System rate increases could reduce water use, which in turn could reduce flows (and revenues) to the Water

System. A significant decline in demand might create a situation in which the City could not increase rates sufficiently to offset the decrease in subscribers or usage. This would reduce the City's ability to make the 2023 Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2023A Bonds as and when due.

**Rate-Setting Process Under Proposition 218**

Proposition 218, which added Articles XIIIC and XIIID to the State Constitution, affects the City's ability to impose future rate increases and no assurance can be given that future rate increases will not encounter majority protest opposition or be challenged by initiative action authorized under Proposition 218. In the event that future proposed rate increases cannot be imposed as a result of majority protest or initiative, the City might thereafter be unable to generate Net System Revenues in the amounts required by the 2023 Supplement to pay the 2023 Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2023A Bonds. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIIC" and – Article XIIID."

Notwithstanding the foregoing, the City has covenanted to fix, prescribe, and collect rates and charges for Water Service at a level at least sufficient to meet its debt requirements for Senior Bonds, as set forth under "SECURITY AND SOURCES OF PAYMENT FOR THE 2023A BONDS – Rate Covenant," and to use its best efforts to effect Water Service rate increases in compliance with Proposition 218. The current water rates approved by the City Council have been imposed in compliance with Proposition 218. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIIC" and "– Article XIIID."

See also "LITIGATION - *Patz Litigation*."

**Statutory and Regulatory Compliance**

The Water System is subject to a variety of federal and State statutory and regulatory requirements. Laws and regulations governing treatment and delivery of water are enacted and promulgated by federal, state and local government agencies. Compliance with these laws and regulations is and will continue to be costly and, as more stringent standards are developed to ensure safe drinking water standards and the provision of water for other purposes, such costs will likely increase.

The City is aware of discharges of Prefluorooctanoic acid and Perflourooctanesulfonic acid, which are fluorinated organic chemicals that are part of a family of synthetic compounds referred to as per- and polyfluoroalkyl substances ("PFAS"), within the Water System's limits. PFAS are water and lipid resistant substances that were previously used in a variety of manufacturing processes and industrial applications. The EPA has issued a proposed rule (the "Proposed Rule") that designates PFAS as hazardous under the Comprehensive Environmental Response, Compensation, and Liability Act. In addition, the State Water Resources Control Board is conducting a phased approach for investigating the existence of PFAS and the State has increased notification and response levels for PFAS in drinking waters. The City Attorney's Office has taken the lead on litigation over PFAS manufacturers on behalf of the people of San Diego. The goal is to stop the discharge of these chemicals and to cover costs anticipated for monitoring and mitigating these discharges in the future, which costs impact the Water System and Wastewater System, as well as the Storm Water Department. The Department projects in its 2020

UWMP that only 100 AF of water (or less than 0.01% of all water usage) will be available per year from ground water, which indicates the likely limited impact of contamination on the Water System.

The City's failure to comply with applicable laws and regulations could result in significant fines and penalties. Such claims are payable from assets of the Water System or from other legally available sources. In addition to claims by private parties, changes in the scope and standards for public agency water systems such as that operated by the Department may also lead to administrative orders issued by federal or State regulators. Future compliance with such orders can also impose substantial additional costs on the Water Utility Fund. No assurance can be given that the cost of compliance with such laws, regulations, and orders would not adversely affect the ability of the Water System to generate Net System Revenues sufficient to pay the debt service on account of any Obligation on parties with the 2023 Installment Payments including, without limitation, the 2023 Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2023A Bonds. See "REGULATORY RISKS."

**Water Supply and its Financial Impacts**

***General***. The Department's water supply, which currently consists of approximately 85% imported water, and the cost thereof are affected by many factors, including but not limited to annual snowpack and rainfall, population growth, water use, groundwater basin quality and recharge trends, federal and State environmental rules and regulations, environmental restoration commitments, water quality, climate change, and area of origin issues. Sustained drought conditions or continued low water levels could adversely affect the Department's water supply, impact operational expenses of the Water System and demand for water services from the Water System. Drought conditions are especially impactful on the City, which has as limited local water supply and relies to a large degree on imported water. Additionally, any natural disaster or other physical calamity, including acts of terrorism, earthquake, earth movements, floods, extreme weather or gradual climate change, may have the effect of reducing water availability, quality and/or distribution capabilities of the Department, impair the financial stability of the Department, affect infrastructure and other public improvements and private improvements and the continued habitability and enjoyment of such private improvements. Further, among other factors affecting demand, water use is affected by economic conditions. Economic recession and its associated impacts such as job losses, income losses, and housing foreclosures or vacancies affect aggregate levels of water use and the City's water sales. Among other matters, water supply and demand, general and southern California economic conditions and changes in law and government regulations could adversely affect the amount of operating revenues that the Department receives. See "WATER SUPPLY."

***Reliance on Water Purchased from CWA.*** The City relies on water purchased from CWA to meet its current water supply requirements. According to CWA, CWA currently acquires the majority of its water from three main sources: (i) desalinated water, (ii) independent water purchases and (iii) MWD. According to MWD, MWD obtains its water from the Colorado River through the United States Bureau of Reclamation and from northern California via the SWP, through the California DWR. If the City's reliance on water purchased from CWA and/or CWA's reliance on MWD increases, the City's expenses with respect to purchased water increases. Additionally, any material reductions in the amount of water available to be purchased from CWA and/or by CWA from MWD could adversely affect the operations and finances of the Water

System. In the near-term, the City expects to continue to rely on water purchased from CWA to meet its current water supply requirements. See "WATER SUPPLY."

In 2019, two CWA member agencies – Rainbow Municipal Water District and the Fallbrook Public Utility District – indicated intentions to leave the CWA and have filed initial reorganization applications with the Local Agency Formation Commission in March 2020. If those agencies leave CWA, fixed prices to the remaining member agencies, including the City, may increase depending on the negotiation of an exit agreement.

***Drought Risks***. The ability of the Water System to operate effectively can be affected by the water supply available to the City, which is situated in an arid and semi-desert environment. If the water supply decreases significantly, whether by operation of mandatory supply restrictions, prohibitively high water costs or otherwise, Water System sales will diminish and Net System Revenues available to pay the 2023 Installment Payments may be adversely affected. CWA, the primary supplier of water to the City, and MWD, a significant supplier of water to CWA, have each indicated that each has plans and manages reserve supplies to account for normal occurrences of drought conditions. See "WATER SUPPLY."

The State has developed a long-term strategy to increase the State's water supply by expanding reservoir storage and the amount of water recycling done throughout the State. This long-term plan is in addition to the short-term goal of reducing statewide water usage, which has been incorporated in the Department's projections. Future droughts could result in mandatorily enforced conservation measures and other mitigations that could have a material adverse impact on Department revenues available to pay the debt service on the Outstanding Obligations, including the 2023A Bonds.

***Climate Change***. Climate change is expected to, among other things, increase the frequency and severity of extreme weather events and cause rising sea levels and substantial flooding. The Water System can be threatened by increased flooding risks, sinkholes, decreased flows, power outages, service disruptions, and other changes in subsurface conditions that are caused by the fluctuating climate extremes between wet and dry weather events. Though the City's Climate Resilient SD plan provides a framework for future action to mitigate risks and minimize exposure to climate change-related hazards, the extent to which City buildings, utilities, equipment and other properties are exposed to climate change-related risks over the next several decades is difficult to determine, as is the potential cost of mitigation and adaptation efforts, and any additional services. See "WATER SYSTEM FINANCIAL OPERATIONS – Climate Change Assessment and Mitigation Plan." To address these risks, the City will monitor and seek to mitigate them over time, which may materially increase the Water System CIP. To the extent that these climate change risks materialize over time, Water System CIP projects are likely to require measures that ensure that the Water System remains resilient to climate change. In addition, climate change can cause operational disruptions which can impact the collection of Net System Revenues.

***Earthquakes***. The geographic area in which the City is located is subject to unpredictable seismic activity. Southern California is characterized by a number of geotechnical conditions that represent potential safety hazards, including expansive soils and areas of potential liquefaction and landslide. According to the County of San Diego Office of Emergency Services, every year approximately 500 earthquakes occur in the state of California that are large enough to be felt. Since 1984, earthquake activity in San Diego County has doubled over that of the preceding 50 years. A major earthquake could cause widespread destruction and significant loss of life in a populated area such as the City. The San Andreas, San Jacinto, Elsinore, and Rose Canyon fault zones are all capable of producing earthquakes that could cause damage in the San Diego area. The Rose Canyon Fault Zone runs through the heart of the San Diego metropolitan area and could present a major seismic hazard to the region.

In March, 2020 the Earthquake Engineering Research Institute San Diego Chapter released a report entitled "San Diego Earthquake Planning Scenario: Magnitude 6.9 on the Rose Canyon Fault Zone." The planning scenario examined the potential impacts and consequences of a probable 6.9 earthquake occurring on the Rose Canyon fault zone. The scenario report concluded that the San Diego Region could suffer severe damage to its buildings and lifeline infrastructure with devastating consequences to the communities and economy following a major Rose Canyon fault zone earthquake. The City did not contribute to the report nor verify the findings in the report. The report indicates that models show San Diego County facing an 18% probability of a magnitude 6.7 or larger earthquake occurring in the next 30-year period on a fault either within the County or just offshore.

Under the above-referenced earthquake model, major water storage infrastructure, including local dams, reservoirs, and aqueducts, are expected to remain in service because of recent seismic retrofits and their locations away from the anticipated fault rupture. The Murray and Sweetwater Main dams have the potential to experience damage from the scenario earthquake. The earthquake model considers it highly unlikely these dams will fail due to moderate peak ground acceleration anticipated at those sites, though these dams have an "extremely high" downstream hazard rating because of their potential for causing flooding and casualties. The major water supply and distribution lines that deliver water to coastal communities from La Jolla to Imperial Beach are at high risk, as they cross the surface rupture and liquefaction zones. Major supply pipeline ruptures along the fault are expected to leave the coastal communities without water for an extended period of time. Further, it is estimated that thousands of leaks and breaks will occur in smaller water distribution pipes because of ground shaking and liquefaction, not accounting for surface rupture.

Water conveyance and distribution facilities maintained by the Department, the Department of Water Resources, MWD and CWA are all subject to the risk of earthquakes and other natural disasters which could interrupt deliveries to the Water System, and subsequently Wastewater flows. Earthquakes or other natural disasters could interrupt operation of the Water and Sewer Systems, or could cause a material increase in costs for repairs and thereby interrupt the ability of the City to realize Net System Revenues sufficient to pay the 2022A Installment Payments securing the payment of principal of and interest on the 2023A Bonds.

***Wildfire***. Facilities within the Water System generally consist of pipelines and connections, flow control facilities, and pumping stations, which are not typically vulnerable to damage by wildfires. The above-ground facilities within the Water System are designed to be tolerant to damage by wildfires through the use of fire-resistant material where possible, such as concrete and masonry blocks. In addition, the Department works closely with the City's Fire Department to ensure that proper vegetative clearances are maintained in and around the properties and facilities of the Water System. The Department monitors wildfires that may threaten the facilities of the Water System and dispatches operations and maintenance crews as necessary to ensure that all above-ground facilities remain safe and operational. Further, during fires, the Department works closely with the City's Fire Department and law enforcement officers to monitor and protect the facilities of the Water System to ensure continuous operation.

***Specific Environmental Rules Affecting the Water System.*** Various federal and State rules and regulations and court decisions have affected and will continue to affect the amount of water available to the Department. See "REGULATORY RISKS" for a discussion of some of the rules, regulations and court decisions that limit the amount or water available to the Department. Additionally, recent federal and State court decisions and environmental regulations have severely restricted the amount of water that may be delivered by Metropolitan and thereby to CWA to the Department from the Bay-Delta. Operational constraints in the Bay-Delta likely will continue until a long-term solution to the problems in the Bay-Delta is identified and implemented. In addition to the Bay-Delta restrictions, the U.S. Department of the Interior and Bureau of Reclamation have also indicated future restrictions may be proposed in the Colorado River Basin, which is the largest supplier to Metropolitan, CWA and therefore the Department. The Department cannot predict if future federal and State rules and regulations will be enacted or if future court decisions will be decided that further restrict water deliveries to the Department and what affect such reduced water deliveries may have on the operations and finances of the Water System.

***Above-Normal Precipitation.*** Just as below-normal precipitation can negatively affect the revenues of the Water System, above-normal precipitation also can negatively affect the revenues of the Water System. Historically, in years where the City receives above-normal levels of precipitation, customers purchase comparatively less water than in years with normal levels of precipitation, which can lead to reduced Water System revenues.

***Security of the Water System***. Military conflicts, cyberattacks and terrorist activities may adversely impact the operations and finances of the Water System. While the Department plans and prepares for emergency situations, maintains incident response protocols to maintain the quality and service of water, has made use of and may continue to pursue additional use of Homeland Security grants to enhance security of various facilities throughout the Water System, has established the Emergency Operating Reserve, and the suppliers of Department water have indicated that they have also taken actions to increase the security of water, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the Water System or that costs of security measures will not be greater than presently anticipated. Further, damage to certain components of the Water System could require the City to increase expenditures for repairs to the Water System significantly enough to adversely impact the City's ability to make the 2023 Installment Payments, which could in turn adversely impact the Authority's ability to make payments of the principal of and interest on the 2023A Bonds. See "WATER SYSTEM FINANCIAL OPERATIONS – Water Utility Fund Reserves."

Military conflicts and terrorist activities may adversely impact the operations and finances of the Water System. The Department continually plans and prepares for emergencies and immediately responds to ensure sewer services are maintained. However, there can be no assurance that any existing or additional safety and security measures will prove adequate in the event that terrorist activities are directed against the Water System or that costs of security measures will not be greater than presently anticipated. Further, damage to certain components of the Water System could require the City to increase expenditures for repairs to the Water System significantly enough to adversely impact the City's ability to pay the 2023 Installment Payments. The City has established within the Water Utility Fund the Emergency Operating Reserve, which is currently funded at a level equal to 70 days of operating costs and may be used under certain circumstances for repairs to the Water System. See "WATER SYSTEM FINANCIAL OPERATIONS—Water Utility Fund Reserves."

***Utility Costs***. Power outages may cause difficulties in receiving an adequate water supply and thus increase the cost of water. No assurance can be given that any future significant reduction or loss of power would not materially adversely affect the operations of the Water System. Also, the Department cannot guarantee that prices for electricity or gas will not increase, which could adversely affect the Water System's financial condition. Gas and electricity costs represent approximately 1.6% of budgeted Water Utility operating expenses for Fiscal Year 2023. The Department also cannot guarantee that additional increases in water rates charged by CWA, the City's wholesale provider, or other charges imposed by CWA or MWD will not be proposed or enacted. Costs for electric power required for operating the pumping systems of CWA, and MWD for CRA and the SWP, are a substantial part of their respective expenses. Such increases in water rates and such other charges as well as increases in electricity and gas costs are eligible to be "passed through" to the City's water customers as increased water rates in accordance with the City's Municipal Code. Such "pass-through" rate increases are subject to Proposition 218 notice requirements. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIIC" and "– Article XIIID."

**Acceleration; Limitations on Remedies**

The Indenture provides that, upon and during the continuance of an Event of Default thereunder, the Trustee may, subject to certain conditions, declare the principal of all Senior Bonds then Outstanding and the interest accrued thereon to be due and payable immediately. Pursuant to the Master Installment Purchase Agreement, in the event of a declaration of acceleration by the Corporation after an Event of Default under the Master Installment Purchase Agreement, all Net System Revenues (as defined herein) received thereafter shall be applied to payment of principal of and interest on Senior Obligations prior to payment of any Subordinated Obligations.

Under the Master Installment Purchase Agreement and the Collateral Agency Agreement with respect to the WIFIA Loans, which are Subordinated Obligations, the Collateral Agent (rather than the Corporation) has the right, pursuant to the Master Installment Purchase Agreement, the Collateral Agency Agreement or any other Issuing Instrument, among others, to accelerate or otherwise declare such Subordinated Obligations immediately due and payable, subject to certain conditions precedent and only after all Senior Obligations have been paid in full. In addition, the State may accelerate payment of the existing SRF Loans, which are Senior Obligations, in the event of a termination of the respective SRF Loan agreement upon violation by the City of any material provision of such SRF Loan agreement after such violation has been called to the attention of the City and after a failure of the City to bring itself into compliance within a reasonable time. For the Subordinated Commercial Paper Notes program, the CP Bank (as defined earlier) may accelerate unpaid Outstanding principal amounts as a remedy upon an Event of Default under the Reimbursement Agreements. Pursuant to the Master Installment Purchase Agreement as supplemented by the Collateral Agency Agreement, the acceleration of Subordinated Obligations may only occur after all Senior Obligations have been paid in full. Pursuant to the Indenture, so long as any Senior Bonds remain Outstanding under the Indenture, no Owners of Subordinated Bonds shall have the right to declare an Event of Default, to declare any Subordinated Bonds immediately due and payable or to direct the Trustee or waive any Event of Default. The foregoing notwithstanding, the remedy of acceleration is subject to the limitations on legal remedies against public entities in the State, including a limitation on enforcement obligations against funds needed to serve the public welfare and interest. Also, any remedies available to the Owners of the 2023A Bonds upon the occurrence of an Event of Default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

Further, enforceability of the rights and remedies of the Owners of the 2023A Bonds, and the obligations incurred by the City, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, receivership, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, now or hereafter in effect, equity principles that may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose, and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the 2023A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights. The opinions to be delivered by Bond Counsel, concurrently with the issuance of the 2023A Bonds, that the 2023A Bonds constitute valid and binding limited obligations of the City and the Indenture constitutes a valid and binding obligation of the City will be subject to such limitations and the various other legal opinions to be delivered concurrently with the issuance of the 2023A Bonds will be similarly qualified. See "APPENDIX B – FORM OF BOND COUNSEL OPINION."

If the City fails to comply with its covenants under the 2023 Supplement to pay the 2023 Installment Payments, there can be no assurance of the availability of remedies adequate to protect the interests of the holders of Senior Bonds.

**Changes in Law and Application Thereof**

The water industry is heavily regulated and there are a significant number of governmental agencies and legislative bodies that have the ability to directly or indirectly affect the Department financially and operationally.

From time to time, governmental agencies, executives and legislative bodies, have proposed, issued or enacted and may continue to propose, issue and enact legislation, rules, orders and other laws, rules and guidance that have the effect of law, particularly in with respect to clean water regulation. The proposal, issuance or enactment of such legislation, rules, orders and other laws, rules and guidance that have the effect of law may have a material effect on the water industry and the Department. Moreover, while enforcement of potential executive orders, laws or regulations could impose additional financial burdens upon the water industry, the Department or the City, as of the date of this Official Statement, insufficient information is available regarding potential governmental action to estimate the magnitude, if any, of such potential impacts.

Additionally, from time to time, the President of the United States, the United States Congress and/or State legislatures have proposed and could propose in the future, legislation that, if enacted, could cause interest on the 2023A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent

Beneficial Owners from realizing the full current benefit of the tax status of such interest. Clarifications of the Internal Revenue Code of 1986, as amended (the "Code"), or court decisions may also cause interest on the 2023A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation. The introduction or enactment of any such legislative proposals or any clarification of the Code or court decisions may also affect the market price for, or marketability of, the 2023A Bonds, or could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. Prospective purchasers of the 2023A Bonds should consult their own tax advisors regarding any such pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

**Uncertainties of Projections, Forecasts and Assumptions**

Compliance with certain covenants contained in the Indenture is based upon assumptions and projections including, but not limited to, those described under "WATER SYSTEM FINANCIAL OPERATIONS – Financial Projections and Modeling Assumptions." Projections and assumptions are inherently subject to significant uncertainties. Inevitably, some assumptions will not be realized and unanticipated events and circumstances may occur and actual results are likely to differ, perhaps materially, from those projected. Accordingly, such projections are not necessarily indicative of future performance, and the City assumes no responsibility for the accuracy of such projections. See also "INTRODUCTION – Forward-Looking Statements."

**Absence of Market for the 2023A Bonds**

There can be no guarantee that there will ever be a secondary market for purchase or sale of the 2023A Bonds or, if a secondary market exists, that the 2023A Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices in connection with a particular issue are suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

**Loss of Tax Exemption on 2023A Bonds**

As discussed under the caption "TAX MATTERS," interest on the 2023A Bonds could become included in gross income for purposes of federal income taxation, retroactive to the date the 2023A Bonds were issued, as a result of future acts or omissions of the City or the Authority in violation of their respective covenants in the Indenture and the Master Installment Purchase Agreement.

**Economic, Political, Social, and Environmental Conditions**

Prospective investors are encouraged to evaluate current and prospective economic, political, social, and environmental conditions as part of an informed investment decision. Changes in economic, political, social, or environmental conditions on a local, state, federal, and/or international level may adversely affect investment risk generally. Such conditional changes may include (but are not limited to) fluctuations in business production, consumer prices, or financial markets, unemployment rates, technological advancements, shortages or surpluses in natural resources or energy supplies, changes in law, social unrest, fluctuations in the crime rate, political conflict, acts of war or terrorism, environmental damage, and natural disasters.

## Future Suspensions and Moratoriums on Utility Shut-Offs

Beginning in March 2018, the City suspended water and wastewater shutoffs due to a high volume of water billing issues, and the suspension is expected to continue into 2023. The City is considering policies consistent Senate Bill 998 and the timeframe for when shutoffs may be reinstated is uncertain. Additionally, in response to the outbreak of COVID-19, and in an effort to provide temporary relief for those facing economic hardships related to the COVID-19 pandemic, the Mayor issued an executive order enacting a moratorium on utility shut-offs and suspending late payment penalties until further notice at the same time the State of California issued a moratorium on shut-offs through December 31, 2021. See "WATER SYSTEM FINANCIAL OPERATIONS — Accounts Receivable," herein.

The City and the State may implement additional billing suspensions and moratoriums on shut-offs or other changes to its customers and such actions may affect Net System Revenues.

No assurance can be made that Net System Revenues will not be materially adversely effected by the existence of suspensions and moratoriums on water and wastewater shut-offs, nor can there be any assurance that City and the State may not establish new moratoriums that could affect Net System Revenues in the future.

# CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES

## Article XIIIA

Article XIIIA of the State Constitution provides that the maximum *ad valorem* tax on real property cannot exceed 1% of the "full cash value," which is defined as "the county assessor's valuation of real property as shown on the 1975-76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment," subject to exceptions for certain circumstances of transfer or reconstruction and except with respect to certain voter approved debt. The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% per year, or decreases in the consumer price index or comparable local data, or to reflect reduction in property value caused by damage, destruction or other factors.

Article XIIIA requires a vote of two-thirds of the qualified electorate to impose special taxes, while generally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. As amended, Article XIIIA exempts from the 1% tax limitation any taxes above that level required to pay debt service on certain voter-approved general obligation bonds for the acquisition or improvement of real property. In addition, Article XIIIA requires the approval of two-thirds of all members of the State Legislature to change any State laws resulting in increased tax revenues.

Under California law, any fee that exceeds the reasonable cost of providing the service for which the fee is charged is a "special tax," which under Article XIIIA must be authorized by a two-thirds vote of the electorate. Under Article XIIID, fees and charges for water, sewer, and refuse collection services are subject to majority protest, but are not subject to the two-third vote requirement of Article XIIIA. The reasonable cost of providing water services has been determined by the State Controller to include depreciation and allowance for the cost of capital improvements. In addition, the California courts have determined to date that fees such as capacity fees will not be special taxes if they approximate the reasonable cost of constructing the water or wastewater capital improvements contemplated by the local agency imposing the fee. See "WATER SYSTEM FINANCIAL OPERATIONS – Revenues."

**Article XIIIB**

Article XIIIB of the California Constitution limits the annual appropriations of proceeds of taxes by State and local government entities to the amount of appropriations of the entity for the prior fiscal year, as adjusted for changes in the cost of living, changes in population, and changes in services rendered by the entity. User fees and charges are considered proceeds of taxes only to the extent they exceed the reasonable costs incurred by a governmental entity in supplying the goods and services for which such fees and charges are imposed.

To the extent that assessments, fees, and charges collected by the City are used to pay the costs of maintaining and operating the Water System and payments due on the Senior Bonds and the Subordinated Bonds, and including the funding of the Reserve Fund established for the Senior Bonds to the applicable Reserve Fund Requirement, should it exist pursuant to such Supplemental Indenture, and the Common Subordinated Bonds Reserve Fund with respect to the 2012A Subordinated Bonds to the Common Subordinated Bonds Reserve Requirement, and the funding of the debt service reserve fund established for certain SRF Loans to their required levels, the City believes as of the date hereof that such moneys should not be subject to the annual appropriations limit of Article XIIIB.

**Article XIIIC**

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 added Articles XIIIC and XIIID to the California Constitution and contained a number of interrelated provisions affecting the ability of local governments, including the City, to levy and collect both existing and future taxes, assessments, fees, and charges.

Section 1 of Article XIIIC requires majority voter approval for the imposition, extension, or increase of general taxes and Section 2 thereof requires two-thirds voter approval for the imposition, extension, or increase of special taxes. These voter approval requirements of Article XIIIC reduce the flexibility of the City to raise revenues by the levy of general or special taxes and, given such voter approval requirements, no assurance can be given that the City will be able to enact, impose, extend, or increase any such taxes in the future to meet increased expenditure requirements. The City has not enacted, imposed, extended, or increased any tax since the effective date of Proposition 218.

Section 3 of Article XIIIC expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees, and charges, regardless of the date such taxes, assessments, fees, or charges were imposed. Section 3 expands the initiative power to include reducing or repealing assessments, fees, and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Article XIIIC to fees imposed after November 6, 1996, the effective date of Proposition 218, and absent other legal authority could result in the reduction in any existing taxes, assessments, or fees and charges imposed prior to November 6, 1996.

"Fees" and "charges" are not expressly defined in Article XIIIC or in SB 919, the Proposition 218 Omnibus Implementation Act enacted in 1997 to prescribe specific procedures and parameters for local jurisdictions in complying with Article XIIIC and Article XIIID ("SB 919"). Such terms are, however, defined in Article XIIID, discussed below. On July 24, 2006, the California Supreme Court ruled in *Bighorn-Desert View Water Agency v. Virjil (Kelley)* (the "*Bighorn Decision*") that charges for ongoing water delivery are property-related fees and charges within the meaning of Article XIIID and are also fees or charges within the meaning of Section 3 of Article XIIIC. The California Supreme Court held that such water service charges may, therefore, be reduced or repealed through a local voter initiative pursuant to Section 3 of Article XIIIC.

In the *Bighorn Decision*, the Supreme Court stated that nothing in Section 3 of Article XIIIC authorizes initiative measures that impose voter-approval requirements for future increases in fees or charges for water delivery. The Supreme Court stated that water providers may determine rates and charges upon proper action of the governing body and that the governing body may increase a charge that was not affected by a prior initiative or impose an entirely new charge.

The Supreme Court further stated in the *Bighorn Decision* that it was not holding that the initiative power is free of all limitations and was not determining whether the initiative power is subject to the statutory provision requiring that water and wastewater service charges be set at a level that will pay debt service on bonded debt and operating expenses. Such initiative power could be subject to the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. Additionally, SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after November 5, 1996 (the date of adoption of Proposition 218), assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. No assurance can be given that the voters of the City will not, in the future, approve initiatives that repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the City's Water Service fees and charges, which are the source of Net System Revenues to make Installment Payments, including the 2023 Installment Payments and, in turn, payments of the principal of and interest on the 2023A Bonds, and other Outstanding Obligations.

Notwithstanding the fact that water service charges may be subject to reduction or repeal by voter initiative undertaken pursuant to Section 3 of Article XIIIC, the City has covenanted to levy and charge rates that meet the requirements of the Master Installment Purchase Agreement in accordance with applicable law.

**Article XIIID**

Article XIIID defines a "fee" or "charge" as any levy other than an *ad valorem* tax, special tax, or assessment, imposed upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property-related service. A "property-related service" is defined as "a public service having a direct relationship to a property ownership." As discussed above, in the Bighorn Decision, the California Supreme Court held that a public water agency's charges for ongoing water delivery are fees and charges within the meaning of Article XIIID. Article XIIID requires that any agency imposing or increasing any property-related fee or charge must provide written notice thereof to the record owner of each identified parcel upon which such fee or charge is to be imposed and must conduct a public hearing with respect thereto. The proposed fee or charge may not be imposed or increased if a majority of owners of the identified parcels file written protests against it. As a result, the local government's ability to increase such fee or charge may be limited by a majority protest.

The City's water service charges have two components, a base fee based on meter size and a commodity charge based on the volume of water consumed. The City has ratified prior increases in its water rates and charges, and believes it has complied with the applicable and material notice and protest procedures of Article XIIID for its current water rates and charges. As of the date of this Official Statement, except as described in this Official Statement, there has not been and there is no pending litigation challenging any of the City's water fees and charges approved since the effective date of Proposition 218. See "LITIGATION – *Patz Litigation*." While the City Attorney currently believes, based upon the judicial precedent in place during the period of these prior rate increases, that a reviewing court could reasonably uphold the validity of those increases, neither the City nor the City Attorney can provide any assurances as to the outcome of a challenge to the prior increases in the City's water rates and charges that were not approved in accordance with the notice and hearing requirements of Article XIIID if one were brought.

In addition, Article XIIID also includes a number of limitations applicable to existing, new, or increased fees and charges, including provisions to the effect that (i) revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service; (ii) such revenues shall not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel; and (iv) no such fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Property-related fees or charges based on potential or future use of a service are not permitted.

Article XIIID establishes procedural requirements for the imposition of assessments, which are defined as any charge upon real property for a special benefit conferred upon the real property. Standby charges are classified as assessments. Procedural requirements for assessments under Article XIIID include conducting a public hearing and mailed protest procedure, with notice to the record owner of each parcel subject to the assessment. The assessment may not be imposed if a majority of the ballots returned oppose the assessment, with each ballot weighted according to the proportional financial obligation of the affected parcel. To provide guidance to City staff regarding the conduct of Proposition 218 "property-related fee" protest proceedings, the City Council adopted Resolution R-2007-655 in January 2007 establishing additional procedures for submitting protests against proposed increases to water rates, including the provision of notice of a proposed change in water fees to all owners of record on each identified parcel and all water customers of the City as reflected in the billing records of the City at the time the notice is given, and additional procedures for the tabulation of protests against proposed increases to water rates, including guidelines for determining when a valid protest has been submitted.

The City and the City Attorney believe that as of the date of this Official Statement that current water fees and charges that are subject to Proposition 218 materially comply with the provisions thereof. Should it become necessary to increase the water fees and charges above current levels, the City would be required to comply with the requirements of Article XIIID in connection with such proposed increase. Until recently, the City had not had a substantive legal challenge to water rate increases implemented by the City pursuant to Proposition 218 or otherwise. A complaint alleging charges in excess of costs of service, among other things, was filed against the City and other local agencies in December 2015. As of the date of this Official

Statement and under existing standards as of such date, the City and the City Attorney believe that rates and charges may be established at levels that are expected to permit deposits to a Rate Stabilization Fund Reserve or maintenance of uncommitted cash reserves. See "WATER SYSTEM FINANCIAL OPERATIONS – Financial Projections and Modeling Assumptions." The City and the City Attorney believe that current water capacity fees are not subject to Proposition 218.

The interpretation and application of Proposition 218 will ultimately be determined by the courts or through implementing legislation with respect to a number of the matters described above, and it is not possible at this time to predict with certainty the outcome of such determination or the nature or scope of any such legislation.

**Proposition 26**

Proposition 26, a State ballot initiative aimed at restricting regulatory fees and charges, was approved by the California voters on November 2, 2010. Proposition 26 broadens the definition of "tax" in Article XIIIC of the California Constitution to include levies, charges and exactions imposed by local governments, except for charges imposed for benefits or privileges or for services or products granted to the payor (and not provided to those not charged) that do not exceed their reasonable cost; regulatory fees that do not exceed the cost of regulation; fees for the use of local governmental property; fines and penalties imposed for violations of law; real property development fees; and assessments and property-related fees imposed under Article XIIID of the California Constitution. California local taxes are subject to approval by two-thirds of the voters voting on the ballot measure for authorization. Proposition 26 applies to charges imposed or increased by local governments after the date of its approval. The City believes that Proposition 26 does not apply to its water rates and charges because such fees and charges are within various exceptions to Proposition 26.

**Initiative, Referendum and Charter Amendments**

Under the State Constitution, the voters of the State have the ability to initiate legislation and require a public vote on legislation passed by the State Legislature through the powers of initiative and referendum, respectively. For example, Article XIIIA, Article XIIIB and Articles XIIIC and XIIID and Proposition 26 were adopted pursuant to the State's constitutional initiative process. Under the City Charter, the voters of the City can restrict or revise the powers of the City through the approval of a charter amendment. From time to time, other initiative measures could be adopted or legislative measures could be approved by the Legislature, which may place limitations on the ability of the City to increase revenues or to increase appropriations. Such measures may further affect the City's ability to collect taxes, assessments or fees and charges, which could have an effect on the Department's revenues. The City is unable to predict whether any such initiatives or charter amendments might be submitted to or approved by the voters, the nature of such initiatives or charter amendments, or their potential impact on the City or the Water Utility Fund. See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Initiative, Referendum and Charter Amendments."

## TAX MATTERS

***Opinion of Bond Counsel***. In the opinion of Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described herein, (i) interest on the 2023A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the 2023A Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code, however for tax years beginning after December 31, 2022, interest on the 2023A Bonds is included in the "adjusted financial statement income" of certain corporations that are subject to the alternative minimum tax under Section 55 of the Code. In rendering its opinion, Bond Counsel has relied on certain representations, certifications of fact, and statements of reasonable expectations made by the Authority in connection with the 2023A Bonds, and Bond Counsel has assumed compliance by the Authority with certain ongoing covenants to comply with applicable requirements of the Code to assure the exclusion of interest on the 2023A Bonds from gross income under Section 103 of the Code.

In addition, in the opinion of Bond Counsel to the Authority, under existing statutes, interest on the 2023A Bonds is exempt from personal income taxes imposed by the State of California.

Bond Counsel expresses no opinion as to any other federal, state or local tax consequences arising with respect to the 2023A Bonds, or the ownership or disposition thereof, except as stated above. Bond Counsel renders its opinion under existing statutes and court decisions as of the issue date, and assumes no obligation to update, revise or supplement its opinion to reflect any action thereafter taken or not taken, any fact or circumstance that may thereafter come to its attention, any change in law or interpretation thereof that may thereafter occur, or for any other reason. Bond Counsel expresses no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, Bond Counsel expresses no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the 2023A Bonds.

***Certain Ongoing Federal Tax Requirements and Covenants***. The Code establishes certain ongoing requirements that must be met subsequent to the issuance and delivery of the 2023A Bonds in order that interest on the 2023A Bonds be and remain excluded from gross income under Section 103 of the Code. These requirements include, but are not limited to, requirements relating to use and expenditure of gross proceeds of the 2023A Bonds, yield and other restrictions on investments of gross proceeds, and the arbitrage rebate requirement that certain excess earnings on gross proceeds be rebated to the federal government. Noncompliance with such requirements may cause interest on the 2023A Bonds to become included in gross income for federal income tax purposes retroactive to their issue date, irrespective of the date on which such noncompliance occurs or is discovered. The Authority has covenanted to comply with certain applicable requirements of the Code to assure the exclusion of interest on the 2023A Bonds from gross income under Section 103 of the Code.

***Certain Collateral Federal Tax Consequences***. The following is a brief discussion of certain collateral federal income tax matters with respect to the 2023A Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a 2023A Bond. Prospective investors, particularly those who may be subject to special rules, are advised to consult their own tax advisors regarding the federal tax consequences of owning and disposing of the 2023A Bonds.

Prospective owners of the 2023A Bonds should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the 2023A Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by Section 884 of the Code.

***Original Issue Discount***. "Original issue discount" ("OID") is the excess of the sum of all amounts payable at the stated maturity of a Bond (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates) over the issue price of that maturity. In general, the "issue price" of a maturity (a bond with the same maturity date, interest rate, and credit terms) means the first price at which at least 10% of such maturity was sold to the public, *i.e.*, a purchaser who is not, directly or indirectly, a signatory to a written contract to participate in the initial sale of the 2023A Bonds. In general, the issue price for each maturity of Bonds is expected to be the initial public offering price set forth on the cover page of the Official Statement. Bond Counsel further is of the opinion that, for any Bonds having OID (a "2023A Discount Bond"), OID that has accrued and is properly allocable to the owners of the 2023A Discount Bonds under Section 1288 of the Code is excludable from gross income for federal income tax purposes to the same extent as other interest on the 2023A Bonds.

In general, under Section 1288 of the Code, OID on a 2023A Discount Bond accrues under a constant yield method, based on periodic compounding of interest over prescribed accrual periods using a compounding rate determined by reference to the yield on that 2023A Discount Bond. An owner's adjusted basis in a 2023A Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Bond. Accrued OID may be taken into account as an increase in the amount of tax-exempt income received or deemed to have been received for purposes of determining various other tax consequences of owning a 2023A Discount Bond even though there will not be a corresponding cash payment.

Owners of 2023A Discount Bonds should consult their own tax advisors with respect to the treatment of original issue discount for federal income tax purposes, including various special rules relating thereto, and the state and local tax consequences of acquiring, holding, and disposing of 2023A Discount Bonds.

***Bond Premium***. In general, if an owner acquires a 2023A Bond for a purchase price (excluding accrued interest) or otherwise at a tax basis that reflects a premium over the sum of all amounts payable on the 2023A Bond after the acquisition date (excluding certain "qualified stated interest" that is unconditionally payable at least annually at prescribed rates), that premium constitutes "bond premium" on that bond (a "2023A Premium Bond"). In general, under Section 171 of the Code, an owner of a 2023A Premium Bond must amortize the 2023A Bond premium over the remaining term of the 2023A Premium Bond, based on the owner's yield over the remaining term of the 2023A Premium Bond determined based on constant yield principles (in certain cases involving a 2023A Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a 2023A Premium Bond must amortize the 2023A Bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner's regular method of accounting against the 2023A Bond premium allocable to that period. If the 2023A Bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a 2023A Premium Bond may realize a taxable gain upon disposition of the 2023A Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner's original acquisition cost. Owners of any 2023A Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of 2023A Premium Bonds.

***Information Reporting and Backup Withholding***. Information reporting requirements apply to interest paid on tax-exempt obligations, including the 2023A Bonds. In general, such requirements are satisfied if the interest recipient completes, and provides the payor with, a Form W-9, "Request for Taxpayer Identification Number and Certification," or if the recipient is one of a limited class of exempt recipients. A recipient not otherwise exempt from information reporting who fails to satisfy the information reporting requirements will be subject to "backup withholding," which means that the payor is required to deduct and withhold a tax from the interest payment, calculated in the manner set forth in the Code. For the foregoing purpose, a "payor" generally refers to the person or entity from whom a recipient receives its payments of interest or who collects such payments on behalf of the recipient.

If an owner purchasing a Bond through a brokerage account has executed a Form W-9 in connection with the establishment of such account, as generally can be expected, no backup withholding should occur. In any event, backup withholding does not affect the excludability of the interest on the 2023A Bonds from gross income for federal income tax purposes. Any amounts withheld pursuant to backup withholding would be allowed as a refund or a credit against the owner's federal income tax once the required information is furnished to the Internal Revenue Service.

***Miscellaneous***. Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the 2023A Bonds under federal or state law or otherwise prevent beneficial owners of the 2023A Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the 2023A Bonds.

Prospective purchasers of the 2023A Bonds should consult their own tax advisors regarding the foregoing matters.

## CONTINUING DISCLOSURE

Pursuant to the Continuing Disclosure Certificates of the City (the "Disclosure Certificate"), the City has agreed to provide, or cause to be provided, to the Municipal Securities Rulemaking Board in the manner prescribed by the Securities and Exchange Commission certain annual financial information and operating data and notice of certain Notice Events (as described in the Continuing Disclosure Certificate). The form of the Disclosure Certificate is attached hereto as "APPENDIX C – FORM OF CONTINUING DISCLOSURE CERTIFICATE." The annual report to be filed by the City is to be filed not later than April 10 after the end of the City's Fiscal Year (which currently ends June 30), commencing with the report for the fiscal year ending June 30, 2023, and is to include audited financial statements of the City. The City's covenants in the Continuing Disclosure Certificates have been made in order to assist the Underwriters in complying with Rule 15c2-12(b)(5) adopted by the SEC under the Securities Exchange Act of 1934 (the "Rule"). A failure by the City to comply with any of the covenants therein is not an event of default under the Indenture or the Master Installment Purchase Agreement.

The City has established an issuer's page on EMMA with respect to the Water Revenue Bonds and Water Utility Bank Loans which includes disclosure of direct borrowings for the Water System. The City's issuer page can be accessed at the following Internet address:

https://emma.msrb.org/IssuerHomePage/Issuer?id=0DE785B24DBD675DE053151E0A0AE7C0&type=M

Neither the issuer page nor any information on the issuer page is made a part of this Official Statement, nor is it incorporated by reference herein and should not be relied upon in making an investment decision with respect to the 2023A Bonds.

Pursuant to its continuing disclosure undertakings relating to the Public Facilities Financing Authority of the City of San Diego's Lease Revenue Bonds and Lease Revenue Refunding Bonds, the City agreed to provide notice of the release of a portion of certain real property (the "MTS Property"). The MTS Property was scheduled to be released, and was released, on October 15, 2022. The City filed the notice of the release of the MTS Property on EMMA two days after the date required under its continuing disclosure undertakings entered into in accordance with the Rule.

## LITIGATION

***General***. As of the date of this Official Statement, there is no litigation pending against the City, the Corporation or the Authority or, to the knowledge of its respective executive officers, threatened, seeking to restrain or enjoin the issuance, sale, execution, or delivery of the 2023A Bonds or in any way contesting or affecting the validity of the 2023A Bonds or the authorizations or any proceedings of the City, the Corporation or the Authority taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the 2023A Bonds or the use of the proceeds of the 2023A Bonds.

There are no pending lawsuits that, in the opinion of the City Attorney, challenge the validity of the 2023A Bonds, the corporate existence of the City, the Corporation or the Authority, or the title of the executive officers thereof to their respective offices. In connection with this review, attention has been given to not only litigation pending against the City, but also litigation pending against the Department. At any given time, including the present, there are certain other claims and lawsuits against the City and the Department that arise in the normal course of operations of the Water System. Such matters could, if determined adversely to the City, affect expenditures by the City, and in some cases, the Water Utility Fund. In the view of the City's management and the Office of the City Attorney, there is no litigation, present or pending, which will individually or in the aggregate materially impair the Authority's ability to service its indebtedness or which will have a material adverse effect on the operations of the Water System, subject to the possible exception of the matter described below.

***Patz Litigation***. In July 2015, the City was named in a putative class action alleging that the City's tiered water rates for single-family residential water service customers violate Article XIIID of the California Constitution (Proposition 218), *Patz v. City of San Diego* (formerly *Coziahr v. Otay Water District*, and herein referred to as the "*Patz Litigation*"). See "CONSTITUTIONAL LIMITATIONS ON TAXES AND WATER RATES AND CHARGES – Article XIIID." The City contends that its water rates are strictly based on cost of service principles and compliant with Proposition 218.

On September 13, 2021, the Court ruled in favor of plaintiffs on the Proposition 218 claim. The Court ruled that the water rates for the higher tiers are not sufficiently tied to the City's cost of providing water at the level of consumption represented by users in the higher tiers and therefore the City's tiered water rate structure violates Proposition 218.

On March 22, 2022, the trial court held the Phase 2 remedies proceeding. Following the remedies proceeding, on March 30, 2022, the Court entered judgment awarding the class a refund totaling $79,541,880 for the time period from August 14, 2014 through March 31, 2022. The Court then awarded the class $643,750 for each month the City continues to use the tiered rate structure going forward. The City continues to use a tiered rate structure. Under California statute, the trial court may grant the City permission to pay any final judgment amount over ten years. Further, the City will be able to recover any final judgment amount it pays from ratepayers through increased rates, if necessary. The City recorded $88.7 million as an expense to the Water Utility Fund in the Fiscal Years 2021 and 2022 financial statements ($39.9 million in Fiscal Year 2021 and $48.8 million in Fiscal Year 2022) to reflect the accrual of the contingent settlement liability. This amount represents the total estimated settlement amount plus the monthly charge accrued through the end of Fiscal Year 2022. See Table 16, footnote 5, for additional information.

The City appealed the judgment on April 1, 2022, and the appeal is pending. The Court of Appeal rejected the City's request to expedite the appeal. Following the City's filing of its appeal, the plaintiffs filed a cross-appeal arguing that the trial court should have calculated the refund amount using a different methodology, resulting in a higher refund award of greater than $107 million. The City submitted its opening brief for its appeal on September 16, 2022. The plaintiffs' opposition brief to the City's appeal and their opening brief on their cross-appeal were filed in January 2023. The City has arranged for amicus briefs in support of the City's position from the League of California Cities and other statewide organizations. All briefing related to the appeal and cross-appeal by all parties is expected to conclude in May 2023. The City hopes to have the decision from the Court of Appeals by the end of 2023, though the City has no control over the court's timeline.

## CERTAIN LEGAL MATTERS

The validity of the 2023A Bonds and certain other legal matters are subject to the approval of legality by Mara W. Elliott, City Attorney of the City, and by Hawkins Delafield & Wood LLP, Bond Counsel to the Authority. A complete copy of the proposed form of Bond Counsel opinion is contained in APPENDIX B hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Authority by Hawkins Delafield & Wood LLP, for the Authority and the City by Mara W. Elliott, City Attorney, and for the Underwriters by their counsel, Nixon Peabody LLP. In connection with the issuance of the 2023A Bonds, Hawkins Delafield & Wood LLP is serving as Disclosure Counsel to the Authority.

## RATINGS

Fitch Ratings ("Fitch") and Moody's Investors Service ("Moody's") have assigned their ratings of "__," and "__," respectively, to the 2023A Bonds. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses: Fitch Ratings, 33 Whitehall Street, New York, New York 10004; and Moody's Investors Service, Inc., 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own.

There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the 2023A Bonds. Neither the City nor the Authority undertakes any obligation to oppose any downward revision, suspension or withdrawal.

## UNDERWRITING

The 2023A Bonds are being purchased from the Authority by Morgan Stanley & Co. LLC, on its own behalf and on behalf of the other underwriters listed on the cover hereof the 2023A Bonds (collectively, the "2023A Bonds Underwriters"), at a price of $__________ (consisting of the aggregate principal amount of $__________, plus a net original issue premium of $____________, less an underwriters' discount of $__________) all subject to the terms of the Bond Purchase Agreement among the Authority, the City and the 2023A Bonds Underwriters (the "2023A Bonds Bond Purchase Agreement"). The 2023A Bonds Bond Purchase Agreement provides that the 2023A Bonds Underwriters shall purchase all of the 2023A Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the 2023A Bonds Bond Purchase Agreement, the approval of certain legal matters by counsel, and certain other conditions. The 2023A Bonds Underwriters may change the initial public offering yields of the 2023A Bonds set forth on the inside front cover of this Official Statement. The 2023A Bonds Underwriters may offer and sell the 2023A Bonds to certain dealers (including dealers depositing the applicable 2023A Bonds into investment trusts) at prices lower than the public offering prices or at yields higher than the yields for the 2023A Bonds stated on the inside front cover of this Official Statement.

The following two paragraphs have been provided by the Underwriters for inclusion in this Official Statement and the Department does not make any representation as to their accuracy or completeness.

Certain of the Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which for certain of the Underwriters may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the Authority, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Department. The market activities of the Underwriters and other market participants may impact the value of the 2023A Bonds. The Underwriters have indicated that their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

The following paragraphs have been provided by two of the Underwriters for inclusion in this Official Statement and the City and the Authority do not make any representation as to their accuracy or completeness.

Morgan Stanley & Co. LLC, an Underwriter of the 2023A Bonds, has entered into a retail distribution arrangement with its affiliate, Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the 2023A Bonds.

UBS Financial Services Inc. ("UBS FSI"), an underwriter of the 2023A Bonds, has entered into a distribution and service agreement with its affiliate UBS Securities LLC ("UBS Securities") for the distribution of certain municipal securities offerings. Pursuant to such agreement, UBS FSI will share a portion of its underwriting compensation with UBS Securities. UBS FSI and UBS Securities are each subsidiaries of UBS Group AG.

## MUNICIPAL ADVISOR

Public Resources Advisory Group, has acted as Municipal Advisor to the City in conjunction with the issuance of the 2023A Bonds. The Municipal Advisor has assisted the City in preparation of this Official Statement and advised in other matters related to the planning, structuring, pricing, issuance and delivery of the 2023A Bonds. The Municipal Advisor will receive compensation contingent upon the sale and delivery of the 2023A Bonds.

The Municipal Advisor has not audited, authenticated or otherwise independently verified the information set forth in the Official Statement, or any other information related to the City with respect to the accuracy or completeness of disclosure of such information. The Municipal Advisor makes no guaranty, warranty, or other representation respecting the accuracy or completeness of this Official Statement or any other matter related to this Official Statement.

## FINANCIAL STATEMENTS

The City prepares audited financial statements annually in conformity with generally accepted accounting principles for governmental entities. The City's most recent financial statements, for the Fiscal Year ended June 30, 2022, were audited by Macias Gini & O'Connell LLP (the "Independent Auditor"), independent certified public accountant, as stated in its report.

The City's basic financial statements contained in the City's ACFR include the financial statements of the Water Utility Fund.

The City's ACFR for Fiscal Year 2022, which includes the City's audited basic financial statements as of and for the fiscal year ended June 30, 2022, is available through EMMA at https://emma.msrb.org/P11649306-P11270407-P11697756.pdf, the contents of which are incorporated by reference in this Official Statement and shall be deemed to be a part hereof.

The Independent Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Independent Auditor also has not performed any procedures relating to this official statement or memorandum. The City did not request the consent of the Independent Auditor to append the City's financial statements to this Official Statement.

## MISCELLANEOUS

This Official Statement has been duly approved, executed and delivered by the Authority and the City.

There are appended to this Official Statement a summary of certain provisions of the principal and legal documents, the proposed form of opinion of Bond Counsel, and a general description of the City and a description of the Book-Entry Only System. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

This Official Statement is not to be construed as a contract or agreement between the Authority or the City and the purchasers or holders of any of the 2023A Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as an opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the financial condition, results of operations, or any other affairs of the City, the Authority, or the Corporation since the date hereof.

PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO

By:__________________________________

Chair, Board of Commissioners

THE CITY OF SAN DIEGO

By:__________________________________

Chief Financial Officer

# APPENDIX A

## SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

***This Appendix A contains only a brief summary of certain of the terms of the documents identified herein and a full review should be made of the entire Official Statement, including the cover page and the Appendices. References to, and summaries of, provisions of the documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. All statements contained in this Appendix A are qualified in their entirety by reference to the entire Official Statement and the complete provisions of the documents referenced.***

# APPENDIX B

## FORM OF APPROVING OPINION OF BOND COUNSEL

*Upon the issuance of the 2023A Bonds, Hawkins Delafield & Wood LLP, Bond Counsel to the Authority, is expected to render its final approving opinion with respect to the 2023A Bonds in substantially the following form:*

Public Facilities Financing Authority
of the City of San Diego
San Diego, California

The City of San Diego
San Diego, California

Ladies and Gentlemen:

We have acted as Bond Counsel to the Public Facilities Financing Authority of the City of San Diego (the "Authority") in connection with the issuance of $_________ aggregate principal amount of Senior Water Revenue Bonds, Series 2023A (the "2023A Bonds") pursuant to Article 4 (commencing with Section 6584, known as the Marks-Roos Local Bond Pooling Act of 1985) of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California (the "Government Code"), the Indenture, dated as of January 1, 2009 (the "Original Indenture"), as amended and supplemented, including as supplemented by the Eighth Supplemental Indenture, dated as of [April] 1, 2023 (the "Eighth Supplemental Indenture" and together with the Original Indenture and all other amendments and supplements thereto, the "Indenture"), each by and between the Authority and U.S. Bank Trust Company National Association, as successor trustee (the "Trustee"), and Resolution No. FA-[2023-__] of the Board of Commissioners of the Authority. The 2023A Bonds are payable from 2023 Installment Payments payable by The City of San Diego, California (the "City") to the San Diego Facilities Equipment Leasing Corporation (the "Corporation") pursuant to the Amended and Restated Master Installment Purchase Agreement, dated as of January 1, 2009 (the "Original Master Installment Purchase Agreement"), as amended and supplemented, including as supplemented by the 2023 Supplement to Amended and Restated Master Installment Purchase Agreement, dated as of [April] 1, 2023 (the "2023 Supplement" and, together with the Original Master Installment Purchase Agreement and all other amendments and supplements thereto, the "Master Installment Purchase Agreement"), each by and between the City and the Corporation, and other assets pledged therefor under the Indenture.

The Corporation has assigned its rights under the 2023 Supplement to the Authority pursuant to the Assignment Agreement, dated as of [April] 1, 2023 (the "Assignment Agreement"), by and between the Corporation and the Authority. Capitalized terms not otherwise defined herein shall have the meanings set forth in the Indenture and the Master Installment Purchase Agreement.

In such connection, we have reviewed the Indenture, the Master Installment Purchase Agreement, the Assignment Agreement, the Tax Certificate, dated the date hereof (the "Tax Certificate"), executed by the Authority and the City, certificates of the Authority, the City, the Corporation, the Trustee and others, opinions of the City Attorney, General Counsel to the

Authority, counsel to the Corporation and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Master Installment Purchase Agreement, the Assignment Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the 2023A Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

We are of the opinion that:

1. The 2023A Bonds constitute the valid and binding limited obligations of the Authority, enforceable in accordance with their terms and the terms of the Indenture.

2. The Eighth Supplemental Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the 2023A Bonds, of the Revenues and any other amounts (including proceeds of the sale of the 2023A Bonds) held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein.

3. The 2023 Supplement has been duly executed and delivered by, and constitutes the valid and binding obligation of, the City, enforceable against the City in accordance with its terms. The Master Installment Purchase Agreement, including as supplemented by the 2023 Supplement, creates a valid pledge of Net System Revenues to secure the payment of 2023 Installment Payments to the Authority, on the terms and conditions set forth therein.

4. Under existing statutes and court decisions and assuming continuing compliance with certain tax covenants described below (i) interest on the 2023A Bonds is excluded from gross income for federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") and (ii) interest on the 2023A Bonds is not treated as a preference item in calculating the alternative minimum tax under the Code, however for tax years beginning after December 31, 2022, interest on the 2023A Bonds is included in the "adjusted financial statement income" of certain corporations that are subject to the alternative minimum tax under Section 55 of the Code.

5. Under existing statutes, interest on the 2023A Bonds is exempt from person income taxes imposed by the State of California.

The Code establishes certain requirements that must be met subsequent to the issuance and delivery of the 2023A Bonds in order that, for federal income tax purposes, interest on the 2023A Bonds be not included in gross income pursuant to Section 103 of the Code. These requirements include, but are not limited to, requirements relating to the use and expenditure of proceeds of the 2023A Bonds, restrictions on the investment of proceeds of the 2023A Bonds prior to expenditure and the requirement that certain earnings be rebated to the federal government. Noncompliance with such requirements may cause interest on the 2023A Bonds to become subject to federal income taxation retroactive to their date of issue, irrespective of the date on which such noncompliance occurs or is ascertained.

On the date of delivery of the 2023A Bonds, the Authority and the City will execute a Tax Certificate containing provisions and procedures pursuant to which such requirements can be satisfied. In the Tax Certificate, the Authority and the City covenant that the Authority and the City will comply with the provisions and procedures set forth therein and that the Authority and the City will do and perform all acts and things necessary or desirable to assure that interest paid on the 2023A Bonds will, for the purpose of federal income taxation, be excluded from gross income.

In rendering the opinion in paragraph 4 hereof, we have relied upon and assumed (i) the material accuracy of the representations, statements of intention and reasonable expectation, and certifications of fact contained in the Tax Certificate with respect to matters affecting the status of interest paid on the 2023A Bonds, and (ii) compliance by the Authority and the City with the procedures and covenants set forth in the Tax Certificate and other documents as to such tax matters.

We express no opinion as to any other federal, state or local tax consequences arising with respect to the 2023A Bonds or the ownership or disposition thereof, except as stated in paragraphs 4 and 5 above. We render our opinion under existing statutes and court decisions as of the date hereof, and assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, any fact or circumstance that may hereafter come to our attention, any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any change in law or interpretation thereof that may hereafter occur, or for any other reason. We express no opinion as to the consequence of any of the events described in the preceding sentence or the likelihood of their occurrence. In addition, we express no opinion on the effect of any action taken or not taken in reliance upon an opinion of other counsel regarding federal, state or local tax matters, including, without limitation, exclusion from gross income for federal income tax purposes of interest on the 2023A Bonds.

We undertake no responsibility for the accuracy, completeness or fairness of any official statement or other offering materials relating to the 2023A Bonds and express herein no opinion relating thereto.

The foregoing opinions are qualified to the extent that the enforceability of the 2023A Bonds, the Indenture, the Master Installment Purchase Agreement and the Tax Certificate may be limited by bankruptcy, moratorium, insolvency or other laws affecting creditors' rights or remedies and are subject to general principles of equity (regardless of whether such enforceability is considered in equity or at law), to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against public entities in the State of California. In addition, the imposition of certain fees and charges by the City relating to the Water System is subject to the provisions of Articles XIIIC and XIIID of the California Constitution.

This opinion is issued as of the date hereof, and we assume no obligation to update, revise or supplement this opinion to reflect any action hereafter taken or not taken, or any facts or circumstances, or any changes in law or in interpretations thereof, that may hereafter arise or occur, or for any other reason.

Very truly yours,

## APPENDIX C

## FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate, dated as of ________ __, 2023 (this "Disclosure Certificate"), is executed and delivered by The City of San Diego (the "City") in connection with the issuance by the Public Facilities Financing Authority of the City of San Diego (the "Authority") of Senior Water Revenue Bonds, Series 2023A (Payable Solely From Installment Payments Secured by Net System Revenues of the Water Utility Fund) (the "2023A Bonds"). The 2023A Bonds are being issued pursuant to the Indenture (as defined herein). In connection therewith, the City, as an "obligated person" with respect to the 2023A Bonds (within the meaning of the Rule, as defined herein), covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City on behalf of the Authority for the benefit of the Holders and Beneficial Owners of the 2023A Bonds and in order to assist the Participating Underwriters in complying with the Rule.

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or dispose of ownership of, any 2023A Bonds (including persons holding 2023A Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any 2023A Bonds for federal income tax purposes.

"Dissemination Agent" shall mean the City and any Person designated by the City to serve as Dissemination Agent.

"Financial Obligation" shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term "Financial Obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

"Holder" shall mean the person in whose name any Bond shall be registered.

"Indenture" shall mean the Indenture, dated as of January 1, 2009, as amended and supplemented by a First Supplemental Indenture, dated as of June 1, 2009, a Second Supplemental Indenture, dated as of June 1, 2010, a Third Supplemental Indenture, dated as of April 1, 2012, a Fourth Supplemental Indenture, dated as of June 1, 2016, a Fifth Supplemental Indenture dated as of January 1, 2017, a Sixth Supplemental Indenture dated as of December 1, 2018, a Seventh Supplemental Indenture dated as of May 1, 2020 and an Eighth Supplemental Indenture dated as of April 1, 2023, each by and between the Authority and U.S. Bank Trust Company, National Association, as successor in interest to U.S. Bank National Association and as successor trustee.

"MSRB" shall mean the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system.

"Notice Event" shall mean any of the events listed in Section 5(a) or (b) of this Disclosure Certificate.

"Official Statement" shall mean the Official Statement, dated ________, 2023, prepared and distributed in connection with the initial sale of the 2023A Bonds.

"Participating Underwriters" shall mean any of the original purchasers of the 2023A Bonds required to comply with the Rule in connection with offering of the 2023A Bonds.

"Person" shall mean any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including any official interpretations thereof issued either before or after the effective date of this Certificate which are applicable to this Certificate.

Section 3. Provision of Annual Reports.

(a) The City shall, or upon written direction, shall cause the Dissemination Agent (if other than the City) to, not later than April 10 after the end of the City's Fiscal Year (which currently ends June 30), or the next succeeding business day if that day is not a business day, commencing with the report for the fiscal year ending June 30, 2023 (each, a "Filing Date"), provide to the MSRB an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. As of the date of this Disclosure Certificate, the format prescribed by the MSRB is the Electronic Municipal Market Access ("EMMA") system.

The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the Filing Date for the filing of the Annual Report if not available by such Filing Date. If the City's Fiscal Year changes, it shall give notice of such change in the same manner as for a Notice Event under Section 5(c) hereof.

(b) Not later than fifteen (15) business days prior to each Filing Date for providing the Annual Report to the MSRB, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If the City is unable to provide to the MSRB an Annual Report by the Filing Date, the City shall, in a timely manner, send a notice to the MSRB.

(c) The Dissemination Agent (if other than the City) shall:

(i) determine each year prior to the date for providing the Annual Report the format for filing with the MSRB; and

(ii) file a report with the City certifying that the Annual Report has been provided to the MSRB pursuant to this Disclosure Certificate, and stating the date the Annual Report was so provided.

Section 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

(a) The audited financial statements of the City for the most recently completed Fiscal Year prepared in accordance with generally accepted accounting principles as applicable to state and local governments in the United States of America. If the City's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Financial information and operating data with respect to the City, as such information and data related to the City's Public Utilities Department and the Water Utility Fund, for the most recently completed Fiscal Year of the type included in the Official Statement, in the following categories (to the extent not included in the City's audited financial statements):

(i) An updated of the information substantially in the form contained in Table 2 (entitled "Water Deliveries") for the most recently completed Fiscal Year;

(ii) An update of the information substantially in the form contained in Table 3 (entitled "Historical Number of Retail Metered Connections to Water System") for the most recently completed Fiscal Year;

(iii) An update of the information substantially in the form contained in Table 4 (entitled "Major Retail Customers") for the most recently completed Fiscal Year;

(iv) An update of the information substantially in the form contained in Table 5 (entitled "Raw Water Reservoirs") for the most recently completed Fiscal Year;

(v) An update of the information substantially in the form contained in Table 6 (entitled "Capacity and Demand of Water System Water Treatment Plants") for the most recently completed Fiscal Year;

(vi) An update of the information substantially in the form contained in Table 7 (entitled "Water Supplies Used For Delivery Of Potable Water") for the most recently completed Fiscal Year;

(vii) An update of the information substantially in the form contained in Table 12 (entitled "Water Utility Fund Historical Capacity Charge Revenues") for the most recently completed Fiscal Year;

(viii) An update of the information substantially in the form contained in Table 13 (entitled "Water Customer Accounts Receivable and Shutoffs by Fiscal Year") for the most recently completed Fiscal Year;

(ix) An update of the information substantially in the form contained in Table 14 (entitled "Five-Year Water Service Charge History for Single Family Residential, Multi-Family Residential, Non-Residential, Irrigation, and Temporary Construction") for the most recently completed Fiscal Year;

(x) An update of the information substantially in the form contained in Table 15 (entitled "Historical Sources of Water Sales Revenues") for the most recently completed Fiscal Year;

(xi) An update of the information substantially in the form contained in Table 16 (entitled "Statements of Revenues, Expenses, and Changes in Fund Net Position for the Water Utility Fund") for the most recently completed Fiscal Year;

(xii) An update of the information substantially in the form contained in Table 17 (entitled "Reserves and Cash and Investments In Water Utility Fund") for the most recently completed Fiscal Year;

(xiii) An update of the information substantially in the form contained in Table 18 (entitled "Calculation of Historic Debt Service Coverage") for the most recently completed Fiscal Year (will be available in the City's comprehensive annual financial report for the most recently completed fiscal year or updated information will be presented in tabular format comparable to referenced table);

(xiv) An update of the information substantially in the form contained in Table 20 (entitled "Outstanding Debt") for the most recently completed Fiscal Year;

(xv) An update of the information substantially in the form contained in Table 21 (entitled "Water Utility Fund Liability Claims Budget and Expenditures") for the most recently completed Fiscal Year;

(xvi) An update of the information substantially in the form contained in Table 24 (entitled "City of San Diego Schedule of Funding Progress") for the most recently completed Fiscal Year; and

(xvii) An update of the information substantially in the form contained in Table 25 (entitled "City of San Diego and Water Utility Fund Pension Contribution") for the most recently completed Fiscal Year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to the MSRB. The City shall clearly identify each such other document so included by reference.

The contents, presentation and format of the Annual Reports may be modified from time to time as determined in the judgment of the City to conform to changes in accounting or disclosure principles or practices and legal requirements followed by or applicable to the City or to reflect changes in the business, structure, operations, legal form of the City or any mergers, consolidations, acquisitions or dispositions made by or affecting the City; provided that any such modifications shall comply with the requirements of the Rule.

Section 5. Reporting of Significant Events.

(a) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2023A Bonds, in a timely manner not later than ten (10) business days after the occurrence of such Notice Event to the MSRB through EMMA:

(i) Principal and interest payment delinquencies;

(ii) Unscheduled draws on debt service reserves reflecting financial difficulties;[3]

(iii) Unscheduled draws on credit enhancements reflecting financial difficulties;

(iv) Substitution of credit or liquidity providers, or their failure to perform;[4]

(v) Adverse tax opinions or issuance by the Internal Revenue Service of proposed or final determination of taxability or of a Notice of Proposed Issue (IRS Form 5701 TEB);

(vi) Tender offers;

(vii) Defeasances;

(viii) Rating changes;[5]

(ix) Bankruptcy, insolvency, receivership or similar event of the City (such event being considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City); or

(x) Default, event of acceleration, termination event, modification of terms or other similar events under a Financial Obligation of the City, if any such event reflects financial difficulties.

(b) The City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the 2023A Bonds, if material, not later than ten (10) business days after the occurrence of the such Notice Event to the MSRB through EMMA:

(i) Unless described in paragraph 5(a)(5), other notices or determinations with respect to the tax status of the 2023A Bonds or other events affecting the tax status of the 2023A Bonds;

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[3] Without limiting its reporting obligation, the City advises that it has not established a debt service reserve fund for the 2023A Bonds.

[4] Without limiting its reporting obligation, the City advises that it has not obtained or provided any credit enhancement or credit or liquidity providers for the 2023A Bonds.

[5] Does not include rating changes related to credit enhancement added by a Holder. In addition, the City's obligation to provide notice of any rating change shall be deemed to be satisfied if the applicable rating agency files such change with EMMA pursuant to the "automated data feeds" that have been established by the MSRB.

(ii) Modifications to rights of holders of the 2023A Bonds;

(iii) Bond calls;[6]

(iv) Release, substitution, or sale of property securing repayment of the 2023A Bonds;

(v) Non-payment related defaults;

(vi) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets thereof, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms;

(vii) Appointment of a successor or additional trustee or the change of name of a trustee; or

(viii) Incurrence of a Financial Obligation of the City or agreement to covenants, events of default, remedies, priority rights or other similar terms of a Financial Obligation of the City, any of which affect security holders.

(c) If the City learns of the occurrence of a Notice Event described in Section 5(a), or determines that knowledge of a Listed Event described in Section 5(b) would be material under applicable federal securities laws, the City shall promptly file, or cause to be filed, a notice of such event with the MSRB through EMMA. Notwithstanding the foregoing, notice of the Notice Events described in subsections (a)(vii) or (b)(iii) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected 2023A Bonds pursuant to the Indenture.

(d) As used in this Disclosure Certificate, the term "Financial Obligation" will be interpreted so as to comply with applicable federal securities laws guidance as of the date of this Disclosure Certificate, including that provided by the Securities Exchange Commission in its Release No. 34-83885, dated August 20, 2018.

Section 6. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate with respect to the 2023A Bonds shall terminate upon the legal defeasance, prior redemption, or payment in full of all the 2023A Bonds. If such termination occurs prior to the final maturity of the 2023A Bonds, the City shall give notice of such in the same manner as for a Notice Event under Section 5(c).

Section 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the City. The Dissemination Agent, if other than the City, shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate.

[6] Any scheduled redemption of 2023A Bonds pursuant to mandatory sinking fund redemption requirements does not constitute a Notice Event within the meaning of the Rule.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, provided that the following conditions are satisfied:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the 2023A Bonds, or the type of business conducted;

(b) the undertakings herein, as proposed to be amended or taking in account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the 2023A Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver (i) is approved by the Holders majority of outstanding principal amount of the 2023A Bonds, in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the 2023A Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Notice Event under subsection 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

Section 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Notice Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Notice Event in addition to that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of the occurrence of a Notice Event.

Section 10. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate, any Holder or Beneficial Owner of the 2023A Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City to comply with its obligations under this Disclosure Certificate; provided that any Beneficial Owner seeking to require the City to comply with this Certificate shall first provide at least 30 days' prior written notice to the City of the City's failure, giving reasonable detail of such failure, following which notice the City shall have 30 days to comply. A default under this Disclosure Certificate shall not be deemed an Event of Default under the

Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damages under this Certificate.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate.

Section 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, and Holders and Beneficial Owners from time to time of the 2023A Bonds, and shall create no rights in any other person or entity.

Section 13. Governing Law. This Disclosure Certificate shall be governed by the laws of the State of California and the federal securities laws.

**IN WITNESS WHEREOF,** The City of San Diego has executed this Continuing Disclosure Certificate as of the date first set forth herein.

THE CITY OF SAN DIEGO

By: ______________________________

Matthew Vespi
Chief Financial Officer

## APPENDIX D

### INFORMATION REGARDING THE BOOK-ENTRY ONLY SYSTEM

*The following description of DTC and its book-entry system has been provided by DTC and has not been verified for accuracy or completeness by the City or the Authority, and neither the City nor the Authority shall have any liability with respect thereto. Neither the City nor the Authority shall have any responsibility or liability for any aspects of the records maintained by DTC relating to or payments made on account of beneficial ownership, or for maintaining, supervising, or reviewing any records maintained by DTC relating to beneficial ownership, of interests in the 2023A Bonds.*

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the 2023A Bonds. The 2023A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond will be issued for each issue of the 2023A Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com, provided that nothing contained in such website is incorporated into this Official Statement.

Purchases of 2023A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the 2023A Bonds on DTC's records. The ownership interest of each actual purchaser of each 2023A Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 2023A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in 2023A Bonds, except in the event that use of the book-entry system for the 2023A Bonds is discontinued.

To facilitate subsequent transfers, all 2023A Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of 2023A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2023A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2023A Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of 2023A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the 2023A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture and the Master Installment Purchase Agreement. For example, Beneficial Owners of 2023A Bonds may wish to ascertain that the nominee holding the 2023A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the 2023A Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to 2023A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts 2023A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the 2023A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the 2023A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, bonds are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, bonds will be printed and delivered to DTC.

The information in this Official Statement concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and the City believes to be reliable, but the Authority and the City takes no responsibility for the accuracy thereof.

The City of San Diego
**Item Approvals**

**Item Subject:** Approval of the Form and Authorization of the Distribution of the Preliminary Official Statement and Authorization of the Execution, Delivery and Distribution of the Official Statement in Connection with the Issuance and Sale by the Public Facilities Financing Authority of the City of San Diego of its 2023A Senior Water Revenue Bonds.

| Approving Authority | Approver | Approval Date |
|---|---|---|
| OFFICE OF THE CITY ATTORNEY DEPARTMENT APPROVER | JORDAN, JEAN | 03/01/2023 |